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FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS HOTELS AND RESORTS FOUR SEASONS

# *1997 Annual Report*

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**FOUR SEASONS**  
*Hotels and Resorts*

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Four Seasons Hotels Inc. operates the world's largest network of luxury hotels and resorts: 41 medium-sized hotels and resorts containing approximately 12,500 rooms in major business centres and key leisure destinations in 17 countries. Another 16 properties are under construction or development in nine additional countries. Four Seasons holds leases for three of these hotels and owns a minority equity interest in, or has loans to, eight properties under its management. Four Seasons has also embarked on a program to develop and manage vacation ownership properties. The first vacation ownership project is currently in the sales process, and two other projects are under active development.

Generally identified by the brand names Four Seasons or Regent, most hotel properties occupy locations that would be extremely difficult to duplicate, in many of the world's key business centres and exclusive resort destinations. Both brands are also widely recognized for the exceptional quality of their guest facilities, service and atmosphere. For reasons such as these, hotels and resorts managed by Four Seasons have been named more frequently than any other competitor among the world's best hotels and travel experiences by Institutional Investor, Condé Nast Traveler and others.

Four Seasons' operations are supported by the efforts of a fully integrated sales and marketing organization, including 13 worldwide sales offices and a global reservation system that permits international coverage and considerable cross-selling of both brands.

Four Seasons' strategy is to offer business and leisure travellers the finest hotel and resort accommodation in each destination it serves. Four Seasons will pursue opportunities for continued growth from new hotel and resort developments and new products, such as vacation ownership, in major international centres and resort destinations.

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(In millions of dollars except per share amounts)

	1997	1996	1995
Revenues under management	\$ 2,119.4	\$ 1,901.5	\$ 1,837.9
EBITDA <sup>(1)</sup>	\$ 78.7	\$ 64.3	\$ 66.7
Normalized net earnings <sup>(2)</sup>	\$ 52.8	\$ 29.9	\$ 20.4
Normalized earnings per share <sup>(2)</sup>	\$ 1.61	\$ 1.04	\$ 0.72
Cash provided by operations	\$ 64.8	\$ 43.7	\$ 38.7
Debt, net of cash	\$ 114.9	\$ 224.6	\$ 230.9
EBITDA <sup>(1)</sup> coverage of net interest costs	8.8	3.4	2.6

(1) Earnings before other operating items, interest and taxes.

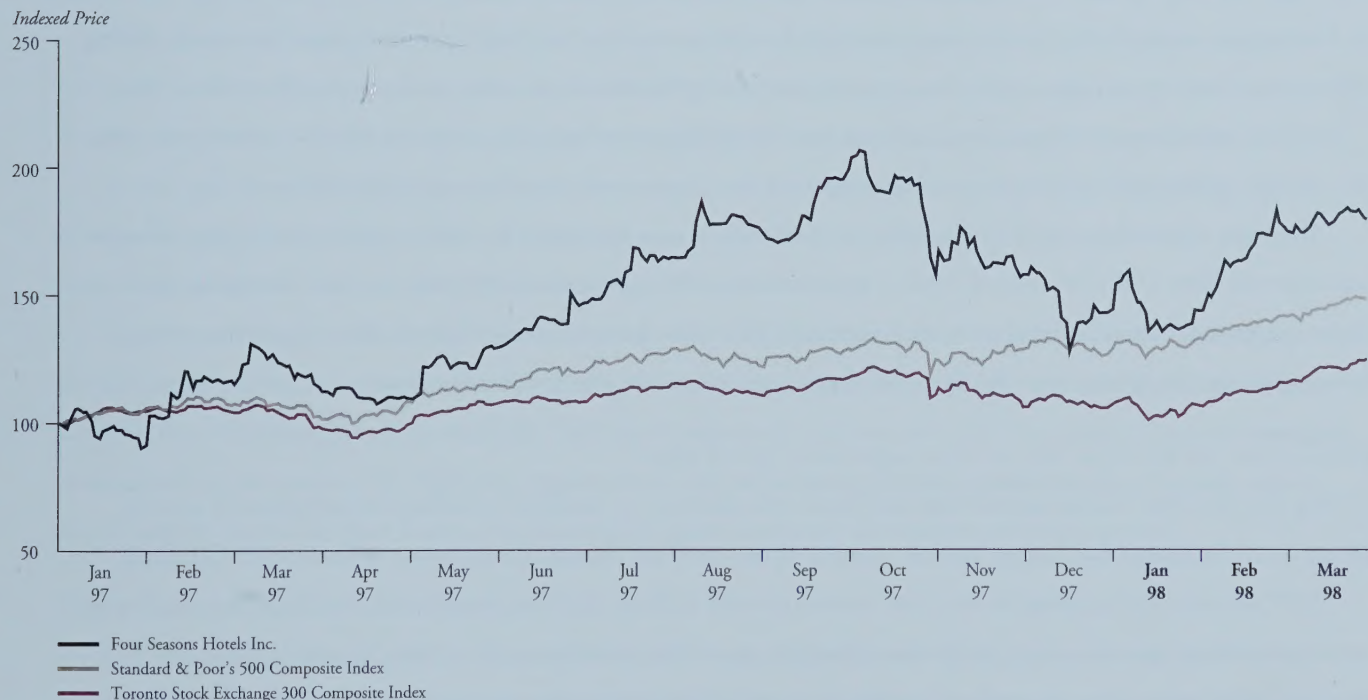
(2) Excludes the loss on repurchase of debt in 1997 and the accounting provision taken in 1995 for certain leasehold and other real estate interests.

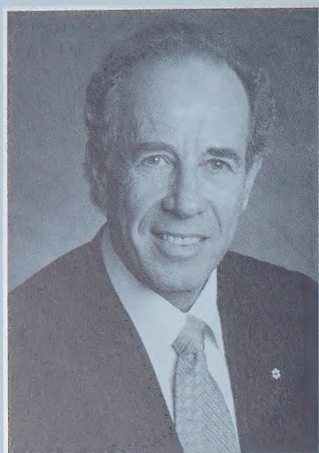
(3) All amounts are in Canadian dollars unless otherwise noted.

Indexed Price Volume Graph (January 1, 1997 – March 27, 1998)

Four Seasons Hotels Inc. – Limited Voting Shares

Compared to TSE 300 and S&P 500





Isadore Sharp  
*Chairman and Chief Executive Officer*

## 1997 WAS A YEAR OF SIGNIFICANT ACCOMPLISHMENT FOR FOUR SEASONS HOTELS AND RESORTS

### Record earnings growth

Four Seasons Hotels Inc. achieved record earnings in 1997, with normalized net earnings increasing 77% to nearly \$53 million or \$1.61 per share. This significant improvement was the result of continued strong internal fee growth, the addition of new hotels and resorts to the portfolio, initial fees from our first luxury vacation ownership project, and lower net interest costs. Growth in net earnings exceeded our business plan for the year, despite the serious deterioration in the Asian markets over the last six months of 1997.

Last year, 81% of our operating earnings were generated by our management business and we were able to achieve significant improvements in both the profit margins of hotels under management and overall corporate profitability. The profit margin on our hotel management operations increased by 130 basis points in 1997, exceeding 60% for the first time in our history.

### Strong balance sheet to support future growth initiatives

In February we raised \$122 million of equity and listed our shares on the New York Stock Exchange. This equity offering allowed us to broaden our shareholder base, improve the trading liquidity of our stock, and enhance shareholder value.

In July we refinanced our long-term debt position. By replacing our high yield debt with 6% investment grade debt, we reduced significantly our cost of capital and improved the Corporation's overall financing flexibility.

Total debt declined by nearly \$100 million to \$140 million as at December 31, 1997 and total debt to capitalization has improved from 73% at the end of 1996 to approximately 36% at the end of 1997. Net interest coverage has also improved from 3.4 times in 1996 to nearly 9 times in 1997. With these substantial balance sheet improvements, we believe that the Corporation has the capacity to finance our expansion plan in the years ahead.

### Important additions to our management portfolio

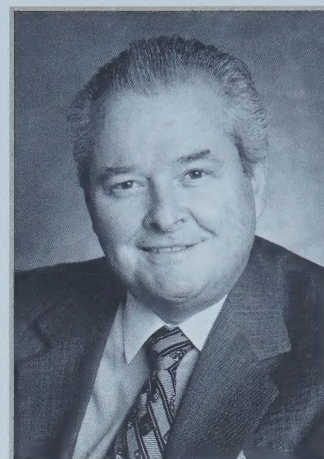
During the year, Four Seasons added three new hotels and resorts to its portfolio, including the conversion of existing luxury hotels in Atlanta and Lisbon, and the opening of the new Four Seasons Resort Aviara at Carlsbad in California.

1997 also saw the beginning of new Four Seasons projects in Paris, San Francisco, Dublin, Las Vegas and a variety of other international locations, all of which should help to expand the prominence of the Four Seasons brand in new markets, while further diversifying the geographic elements of the Corporation's operations.

## Growth through selective diversification

The opening of the Four Seasons Resort Club in Aviara marked the beginning of what we hope will be a very successful diversification into the branded luxury vacation ownership business. With two other projects scheduled to start sales within the next 12 months in Punta Mita, Mexico and Scottsdale, Arizona, we expect that Four Seasons will benefit from both unit growth and strong demand fundamentals underlying this business.

Four Seasons' joint venture with the Carlson Hospitality Group of Minneapolis to franchise new and existing luxury hotels under the Regent brand was also completed this year. With three new hotels recently announced, we expect Carlson to be aggressive in its expansion of the Regent chain of hotels around the world, allowing Four Seasons to participate in a rapidly growing and purely incremental revenue stream.



John L. Sharpe  
*President and Chief Operating Officer*

## Defined vision and unwavering focus

The successes of 1997, and those that we expect lie ahead, are the direct result of a concept of specialization developed many years ago, and a series of clearly focused major business decisions that have advanced our strategy to the present day.

Our decision to manage only medium size hotels of exceptional physical quality, offering the highest standard of service in the luxury lodging business, allowed us to develop a leadership position in the most specialized niche in the industry. As a result, today we manage a group of the world's finest hotel assets in irreplaceable locations around the globe.

At the same time, Four Seasons set out to create an integrated worldwide sales and marketing organization capable of supporting a growing global portfolio of hotels and resorts. Our marketing strength and cost control strategies have made Four Seasons the leader in luxury hotel operating performance.

It is the combination of these and other factors that have made Four Seasons the operator of choice for investors and developers seeking to set new standards for luxury hotel service around the world. The very special alliance we have with His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud has also created a number of new international development opportunities. His Highness's organization, and the resources of other committed Four Seasons owners, should help to ensure that Four Seasons has the external resources to grow effectively in the coming years.

## Ingredients of future success

With an unmatched global portfolio of luxury hotels and resorts, the most prestigious awards for customer service excellence, strong strategic alliances for development capital, the best operating performance in our segment, and the most recognized brand name in the luxury hotel segment, we believe that we have achieved a formidable competitive advantage, and positioned Four Seasons and its world renowned brand for the next stage of significant growth.

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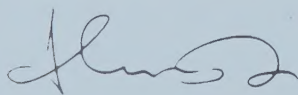
The strength and awareness of the Four Seasons brand should ensure that we are, at least, considered for almost all new management opportunities in the international luxury hotel market. We believe that a strong cash flow position and our relationships with strategic investors for development capital mean that we are in a position to take advantage of these opportunities as well. We will continue to examine other growth opportunities that offer us the chance to leverage our core strengths and maintain and enhance the value of our brand name, and permit Four Seasons to grow aggressively with the careful deployment of capital and prudent use of our human resources.

As we move forward, we will not lose sight of our greatest strength—the unwavering dedication of our employees around the world. At all levels, we are committed to ensuring that Four Seasons has the human resource strength to maintain our standards as we grow. We have taken steps to ensure that the Corporation has depth of personnel in all major disciplines. We have also taken steps to ensure that the transition of succession of senior management that will inevitably occur over the next few years is planned, controlled and developed from within in a way that ensures the continuity and enhancement of our shared core values. Our unique service culture is the cornerstone of Four Seasons—the most important element separating us from our competitors, and one that is virtually impossible to copy.

### Conclusion

As we look ahead to new challenges, we are committed to maintaining an environment that allows our people to excel at their work in a way that enhances the strength of Four Seasons for the benefit of all stakeholders. We thank each of our valued employees for their individual and collective commitment to Four Seasons and its customers, and look forward to working together for continued success in the years to come.

Our strategy will continue to focus on increasing shareholder value through a multi-faceted growth program that builds upon our core strengths and singular focus on the top tier of the global lodging business. We believe that Four Seasons is better positioned than at any point in its history to achieve its growth objectives in the years ahead.



ISADORE SHARP

*Chairman and Chief Executive Officer*



JOHN L. SHARPE

*President and Chief Operating Officer*

Four Seasons management committee consists of: Isadore Sharp, Chairman and Chief Executive Officer, John L. Sharpe, President and Chief Operating Officer, Roger Garland, Vice Chairman, Antoine Corinthios, President, Europe, Africa and Middle East, Wolf H. Hengst, Executive Vice President, Operations, Douglas L. Ludwig, Executive Vice President, Chief Financial Officer and Treasurer, Anthony Sharp, Vice President, Vacation Ownership, Barbara Talbott, Senior Vice President, Marketing, Kathleen Taylor, Executive Vice President, Corporate Planning and Development, Christopher Wallis, Executive Vice President, Design and Construction, John W. Young, Senior Vice President, Human Resources.

**Q What was the impact of the Asian economic crisis during 1997 and what is management's expectation for 1998?**

*A The Corporation's management fee revenues from Asia were approximately \$1.0 million lower in 1997, compared to 1996, due to the economic downturn in the region. Nonetheless, the Corporation's total fee revenues exceeded the business plan for the year due to the growth of REVPAR (average room revenue per available room) and profitability in its existing hotels in North America and Europe, growth in fees from recently opened projects, and new fees from vacation ownership operations. This demonstrates the importance of the global diversification of our hotel management business and entry into the luxury vacation ownership business.*

*The combination of management fee revenues and ownership earnings make The Regent Hong Kong the most important of the Corporation's Asian hotels. The hotel industry in Hong Kong has suffered a significant decline due to the local and regional financial disruption that occurred in the last half of the year. The distributable earnings from The Regent Hong Kong were reduced by approximately 35% compared to 1996.*

*The Corporation expects that the difficult market conditions in Asia will continue throughout 1998, with REVPAR in the region expected to decline 15% to 20%. We will continue to focus on maintaining and enhancing market share, and where possible will price as much international business as possible in US dollars. In addition, cost management programs have been implemented to reduce non-local currency costs. Although management fee revenues and the dividend distributions from the Asian hotels are expected to decrease in 1998, the Corporation expects to meet its overall 1998 growth objective through internal growth in North America and Europe, unit growth and increased fees from the vacation ownership business.*

**Q Some industry surveys are now predicting an increase in new supply of hotels in the luxury segments in North America. How will this affect your business and what constraints will this place on REVPAR growth?**

*A Most of the industry surveys categorize product by price position in a given market. However, much of the product that is projected to be added to the "luxury" category does not represent a product directly competitive to Four Seasons' hotels.*

*It is also important to distinguish the markets in which the increase in supply will occur. The majority of new hotels are being built in secondary markets where Four Seasons does not currently operate or expect to operate a hotel because the market, in our view, cannot support a very high end luxury product. As such, most of the new supply additions in North American cities should not have a material impact on the Corporation's business. Based on our business plan, we anticipate that REVPAR increases in our North American hotels will be approximately 7% in 1998.*

**Q What does management expect the effect of an economic downturn would be on Four Seasons business?**

*A We believe that as a result of the combination of the strength of the Corporation's balance sheet, improving operating cash flow and cost control improvements instituted at the majority of our hotels, Four Seasons is well positioned to deal with the next economic downturn. Hotel management, from which Four Seasons derives most of its earnings, is a much less cyclical business than hotel ownership. While no business is completely "recession proof," the economic fundamentals of*

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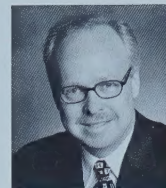
H. Roger Garland  
Vice Chairman



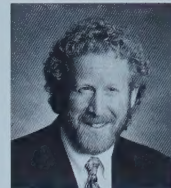
Antoine Corinthios  
President  
Europe, Africa and  
Middle East



Wolf H. Hengst  
Executive Vice President  
Operations



Douglas L. Ludwig  
Executive Vice President,  
Chief Financial Officer  
and Treasurer



Anthony Sharp  
Vice President  
Vacation Ownership

hotel management provide a buffer, in that it is not capital intensive and the revenue stream is based, to a large extent, on the gross operating revenue of hotels under management. As a result, even in a downturn, we believe that earnings from our hotel management business may not be subject to large negative swings. Also, the diversity of our management operations, covering 36 different markets and 17 countries, helps to shelter the Corporation from negative regional economic effects. 1997 was a good example of a regional economic downturn, in Asia, which did not have a material effect on the Corporation's management business.

**How many hotels can Four Seasons operate and continue to maintain its service standards? Is there a limit to the number of markets in which Four Seasons can operate a hotel?**

The Corporation's continued success is dependent on the Four Seasons brand being recognized by hotel guests and hotel developers as the preeminent brand in the luxury sector. Maintaining the highest service standards in each Four Seasons hotel, and ensuring that the quality of guest experience is consistent across the portfolio, is essential to that continuing recognition. As a result, the Corporation is careful about the pace of adding new hotels and resorts to the portfolio. It is extremely important that we have access to experienced hotel operations personnel to staff key positions in new hotels. A significant portion of our corporate resources are focused on the development of new managers to allow us to meet our growth objectives.

In fact, as the Corporation has grown and the culture has been absorbed by a larger group of hotel professionals, expansion has in some respects become easier. The availability of experienced hotel operations personnel should not be a constraining factor as the Corporation has a large and growing group of talented and highly motivated hotel managers. At the corporate level each discipline has strong representation and support, and the depth of resources required to ensure the Corporation can largely grow from within.

The number of markets that can support a luxury hotel will also continue to grow as cities in emerging markets establish themselves as business and financial centres. The Corporation believes that it could double the number of hotels and resorts under its management within the next 10 years.

**How is Four Seasons' new vacation ownership project being received and what are the Corporation's long-term plans for this business?**

Four Seasons first vacation ownership project, built adjacent to the Four Seasons Resort Aviara in Southern California, started sales in mid-1997. The Corporation is pleased with the response to the product, as both the pace of sales and the selling prices are meeting expectations. Sales of the vacation ownership units at the new Four Seasons resorts in Punta Mita, Mexico and Scottsdale, Arizona are also scheduled to begin within the next 12 months.

Looking beyond these projects, the Corporation is considering a vacation ownership component in virtually all new resort properties and in certain of its existing resorts. Four Seasons is also considering the benefits of developing "stand



Barbara Talbott  
Senior Vice President  
Marketing



Kathleen Taylor  
Executive Vice President  
Corporate Planning  
and Development



Christopher Wallis  
Executive Vice President  
Design and Construction



John W. Young  
Senior Vice President  
Human Resources

alone" vacation clubs in selected destinations such as ski resorts. We expect the profit contribution from our vacation ownership business to be 10% or more of our operating earnings within five years. Given the ability of the Corporation to effectively leverage the brand name in a controlled and high margin business, Four Seasons intends to explore the possibility of taking a larger equity stake in this element of its development program.

**In 1996, the Corporation announced that it had entered into an arrangement with Carlson Hospitality to franchise the Regent brand name. What is the status of that arrangement?**

At the end of 1996 Four Seasons announced the sale of the Regent brand name to a subsidiary of Carlson Hospitality Worldwide of Minneapolis. Carlson Hospitality is part of Carlson Companies, Inc., a global hospitality, travel and marketing company with system-wide revenues of \$20 billion and extensive experience in franchising. Under the terms of the arrangement, Carlson will be responsible for licensing the Regent brand to new and existing hotels, and Four Seasons will receive a portion of the franchise revenue generated by the new venture. We believe that this will allow Four Seasons to participate in the franchise business without any capital investment or operating exposure to the cost base of the new venture. In addition to earning a percentage of the franchise revenue, Four Seasons may also have the opportunity to manage new Regent properties and would earn incremental management fees in those circumstances. Four Seasons will continue to manage the existing nine Regent Hotels and will assist Carlson in establishing the quality standards for new Regent projects.

Carlson has recently announced the first three Regent franchises in Las Vegas (two hotels) and Mumbai (Bombay), India and is expecting to more than double the size of the Regent group, to more than 20 hotels, in the year 2000. As the venture is in its formative stage, the Corporation is not expecting a material contribution from these initial franchise fees in 1998 but expects that the profit contribution from this business could be 10% of operating earnings within five years.

**Due to the significant cash flow forecasted for 1998, it appears that Four Seasons will have excess cash reserves. What is management's plan for those reserves?**

As primarily a hotel management company, Four Seasons has very modest maintenance capital spending requirements relating to its existing asset base. In 1997, the Corporation utilized more than 80% of its operating cash flow to make investments that allowed Four Seasons to obtain new management agreements.

In early 1998, we deployed the Corporation's year-end 1997 cash reserves to significantly improve the management fee structure for the Four Seasons Hotel London. In that transaction the Corporation made a minority equity investment in the hotel and provided acquisition financing to His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud, who purchased the balance of the equity. At the same time, Four Seasons was able to secure significantly enhanced management terms for the operation of that important hotel over the remaining 56 years of its management contract. We intend to continue to identify and pursue this and other types of opportunities to effectively deploy the Corporation's cash reserves.

Four Seasons Hotels and Resorts are well located in key business centres and leisure destinations around the world. These hotels and resorts are supported by a fully integrated global sales and reservations system that provides international coverage.



- Existing Four Seasons Hotel or Resort  
 ■ Future Four Seasons Hotel or Resort (under development)

## ASIA / PACIFIC

- 1 Bali at Jimbaran Bay
- 2 Bali at Sayan
- 3 Bangalore
- 4 Bangkok (*The Regent*)
- 5 Chiang Mai (*The Regent*)  
at Mae Rim Valley
- 6 Doha, Qatar
- 7 Goa, India

8 Hong Kong (*The Regent*)

- 9 Jakarta (*The Regent*)
- 10 Kuala Lumpur (*The Regent*)
- 11 Kuda Huraa, Maldives
- 12 Singapore
- 13 Singapore (*The Regent*)
- 14 Sydney (*The Regent*)
- 15 Taipei (*Grand Formosa Regent*)
- 16 Tokyo at Chinzan-so

## EUROPE

- 17 Berlin
- 18 Dublin
- 19 Istanbul
- 20 Lisbon (*Ritz*)
- 21 London
- 22 Milan
- 23 Paris

## MIDDLE EAST

- 24 Amman
- 25 Cairo  
at The First Residence
- 26 Cairo at Nile Plaza
- 27 Riyadh
- 28 Sharm El Sheikh



#### NORTH AMERICA

- 29 Atlanta
- 30 Austin
- 31 Aviara
- 32 Aviara  
*Resort Club*
- 33 Boston
- 34 Chicago
- 35 Chicago  
*The Ritz-Carlton*

- 36 Dallas *at Las Colinas*
- 37 Hawaii  
*Hualalai at Historic Ka'upulehu*
- 38 Houston
- 39 Las Vegas
- 40 Los Angeles
- 41 Los Angeles  
*(The Regent Beverly Wilshire)*
- 42 Maui *at Wailea*
- 43 Mexico City

- 44 Nevis
- 45 New York
- 46 New York  
*The Pierre*
- 47 Newport Beach
- 48 Palm Beach
- 49 Philadelphia
- 50 Punta Mita, Mexico  
*Resort and Resort Club*
- 51 San Francisco

- 52 Santa Barbara
- 53 Scottsdale  
*Resort and Resort Club*
- 54 Seattle
- 55 Toronto
- 56 Vancouver
- 57 Washington, D.C.

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**IBC CORPORATE DIRECTORY**

## BUSINESS OF FOUR SEASONS

Four Seasons Hotels Inc.<sup>1</sup> was incorporated under the *Business Corporations Act* (Ontario) on January 6, 1978.<sup>2</sup> FSHI's registered and principal office is located at 1165 Leslie Street, Toronto, Ontario, Canada M3C 2K8. The Limited Voting Shares of FSHI are listed on The Toronto Stock Exchange and the Montreal Exchange under the symbol FSH and the New York Stock Exchange under the symbol FS.

Four Seasons is one of the world's leading managers of luxury hotels and resorts. Four Seasons manages 41 luxury hotel and resort properties containing approximately 12,500 guest rooms, primarily under the Four Seasons and Regent brand names, in principal cities and resort destinations in 17 countries in North America, Europe, Asia, Australia, and the Caribbean. In addition, 16 hotels and resorts are under construction or development. Nine of these projects are in countries where Four Seasons does not currently manage a hotel. (A chart summarizing the hotels and resorts managed and under construction or development by Four Seasons is set out on pages 18 through 20.) The Corporation's strategy is to offer business and leisure travellers the finest hotel and resort accommodation in each destination it serves.

Four Seasons earns revenue from both hotel management and hotel ownership operations. In early 1997, the Corporation completed an asset disposition program initiated in 1993 and is now principally a hotel management company. In contrast to more volatile hotel ownership, hotel management operations tend to generate relatively stable earnings and cash flow for the Corporation and should provide a more solid platform for Four Seasons' future growth. In 1997, 81% of the Corporation's earnings before other operating items was generated by its hotel management business.

Under its management agreements, Four Seasons generally supervises all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training

## FORWARD-LOOKING STATEMENTS

*When used in this Annual Information Form, the Message to Our Shareholders, and the Management Committee Round Table, the words "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated, projected or implied, including, without limitation: competition within each of the Corporation's business segments, the balance between supply of and demand for hotel rooms and vacation ownership units, the Corporation's continued ability to obtain new operating contracts on advantageous terms, the Corporation's relations with current and potential hotel owners and clients, the effect of international, national and regional economic conditions and the availability of capital to fund further investments in the Corporation's businesses. Given these uncertainties, readers are cautioned not to place undue reliance on these statements. The Corporation also undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.*

All amounts referred to in this document are in Canadian dollars unless otherwise noted.

- 1 "FSHI" means Four Seasons Hotels Inc. "Four Seasons" or the "Corporation" means, collectively, FSHI and all its subsidiaries, including Four Seasons Hotels Limited ("FSHL") and Regent International Hotels Limited ("Regent").
- 2 The articles of FSHI were restated in 1986 to consolidate prior amendments and were amended in 1989 to subdivide each Subordinate Voting Share and each Multiple Voting Share on a 2:1 basis and to create an unlimited number of special shares designated as First Preference Shares and Second Preference Shares. In 1996 the articles were further amended to redesignate the Subordinate Voting Shares as Limited Voting Shares and to create 4,171,924 special shares designated as Variable Multiple Voting Shares, which replaced and have substantially the same rights, privileges, restrictions and conditions as did the Multiple Voting Shares, except that the number of votes per Variable Multiple Voting Share generally increases as Limited Voting Shares are issued and dividends on the Variable Multiple Voting Shares will be in an amount per share equal to 50% of the dividends per Limited Voting Share.

and supervising of staff. For providing these services, Four Seasons typically receives a base fee calculated as a percentage of gross revenues of the hotel. In addition, Four Seasons may receive incentive fees based on the operating performance of the hotel.<sup>3</sup>

Four Seasons makes minority investments in, or loans in respect of, properties where it is necessary to obtain new management agreements and when the overall economic return to Four Seasons justifies the investment. The Corporation generally seeks to limit its total capital exposure to no more than 20% of the total equity required for the new property, and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation structures its ownership interests separately from its management interests so as to enable the Corporation to dispose of ownership interests as sale opportunities arise, without affecting its management interests.

Four Seasons holds an ownership interest in, or has loans to, 11 of the 41 hotels and resorts currently under management.<sup>4</sup> Four Seasons' most significant ownership interests are: a 100% leasehold interest in the Four Seasons Hotel Vancouver, The Pierre in New York, and the Four Seasons Hotel Berlin,<sup>5</sup> a 25% leasehold interest in The Regent Hong Kong and a 25% investment in The Ritz-Carlton Hotel Chicago.<sup>6</sup> The Corporation also holds secured cash flow loans in connection with the transactions involving the Four Seasons Hotel London in 1995 and 1998<sup>7</sup> and has a loan outstanding in connection with the Hôtel George V in Paris.

In order to further capitalize on the value of the Four Seasons brand, the Corporation has begun to license and manage luxury vacation ownership projects. The Corporation will receive fees for the use of the Four Seasons brand in connection with these projects, and for services provided in the oversight of the sales and marketing of the vacation ownership units. In addition, the Corporation will receive fees from the owners of the vacation ownership units for services provided in the ongoing management of these units.

To realize the growth potential of the Regent brand, the Corporation has entered into an agreement with the Carlson Hospitality Group of Minneapolis ("Carlson"). Pursuant to the arrangement Carlson will franchise the Regent brand, and the Corporation will receive a share of the franchise revenue generated by Carlson. Four Seasons will continue to manage the existing Regent hotels and will have the opportunity to manage new Regent properties.<sup>8</sup>

### Competitive Strengths

The hotel industry is highly competitive. The Corporation believes that it has several distinguishing competitive strengths, including:

#### *Strong Brand Recognition*

Four Seasons hotels and resorts are widely recognized for the exceptional quality of their guest facilities, service and atmosphere, and have been named more frequently than any other competitor among the world's best hotels and travel experiences by Institutional Investor, Condé Nast Traveler, AAA Five Diamond and others. The Corporation believes that its brand name recognition cannot easily be replicated by competitors, as it is dependent upon the establishment of a global chain of unique properties of the highest quality.

<sup>3</sup> See "Hotel Management Operations" beginning on page 21.

<sup>4</sup> See "Hotel Ownership Operations" beginning on page 23.

<sup>5</sup> See discussion under "Four Seasons Hotel Berlin" on page 31.

<sup>6</sup> The Corporation expects to reach an agreement to dispose of its interest in The Ritz-Carlton Hotel Chicago in exchange for the elimination of certain termination provisions in the management agreement for that hotel.

<sup>7</sup> See discussion under "Four Seasons Hotel London" on page 32.

<sup>8</sup> See discussion under "Regent Joint Venture" on page 16.

### *Superior Hotel Operating Results*

Four Seasons generally has average room revenue per available room (REVPAR) and operating profit margins for hotels under its management above the average achieved in the luxury segment of the lodging industry. Four Seasons believes that owners and developers of luxury hotels worldwide are attracted to the Corporation as a result of the superior financial performance of the hotels under its management.

### *Global Presence*

Four Seasons manages and provides sales and marketing support to a global portfolio of 41 luxury hotels and resorts in 17 countries. Sixteen additional properties are under construction or development. Nine of these are in countries in which the Corporation does not currently manage a hotel. Hotels managed by Four Seasons are located in major international financial centres, such as London, New York, Chicago, Washington, Los Angeles, Toronto, Milan, Tokyo, Singapore, Hong Kong and Sydney, as well as in emerging international markets, such as Berlin and Mexico City. In addition, Four Seasons manages resorts in world-class destinations, such as California, Hawaii, Nevis and Bali. Four Seasons anticipates that it will continue to expand in urban and resort destinations where consumer demand warrants a luxury property. In 1997, approximately 84%, 14%, and 2% of the Corporation's consolidated revenues were derived from hotels and resorts in North America, Asia and Europe, respectively. Four Seasons maintains a fully-integrated global reservation and sales office system that provides international sales coverage for these properties.

### *Hotel Management Focus*

As a result of an extensive asset disposition program carried out between 1993 and 1997, and through the addition of a number of new management agreements, Four Seasons is now principally a global hotel management company. Although Four Seasons will continue to make loans or investments to secure long-term management contracts, these investments will generally be minority interests and will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment.

Management agreements for the hotels and resorts managed by the Corporation generally are long term, having an average remaining term of approximately 57 years for Four Seasons hotels and approximately 17 years for Regent hotels, including extension periods available at Four Seasons' option. These agreements entitle Four Seasons to earn base fees, as well as a range of fees for pre-opening development, purchasing, marketing and reservation services. The Corporation has the ability to participate in the profits of the hotels under its management through incentive fees at 37 hotels or resorts under management. These incentive fees are generally based on operating profits of the hotel or resort. In 1997, Four Seasons received incentive fees from 27 of its hotels and resorts. During the same period, 31 of the hotels and resorts under its management each generated over \$1.0 million annually in base and incentive fees, and the average base and incentive fees earned for all managed hotels were \$2.0 million per hotel or resort.

### *Strategic Relationships*

Strategic relationships are an important source of financing for future development opportunities to expand Four Seasons' hotel management operations. Four Seasons has established relationships with numerous institutional and private equity sources that invest in and develop luxury hotel properties. Several of the existing owners have an ownership interest in more than one Four Seasons hotel or resort. One owner has an ownership interest in five hotels and two others have an ownership interest in four hotels. In addition, in 1994 Kingdom Investments Inc. ("Kingdom"), a company controlled by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud, purchased a significant minority position in FSHI.

(continued)

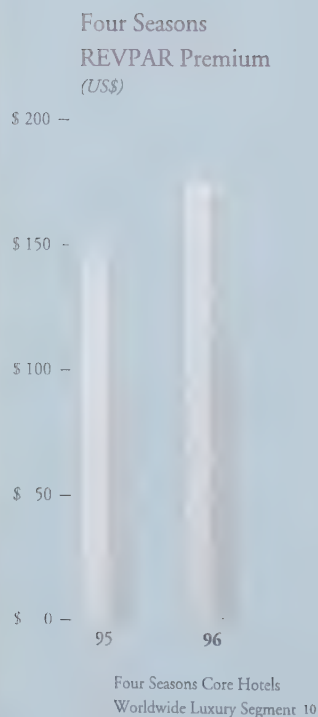
Since purchasing its interest in FSHI, Kingdom and its affiliates have purchased a majority interest in the Four Seasons Hotel London, and have purchased the Hôtel George V in Paris, which Four Seasons will manage as a Four Seasons hotel in 1999 when it reopens following an extensive renovation program. Kingdom has invested or will invest in a number of additional properties under various stages of development that the Corporation expects to manage under the Four Seasons brand name, such as the Four Seasons hotels in Avira, Punta Mita, Scottsdale, Cairo, Amman and Riyadh.

### *Strong Management Team*

Four Seasons' corporate executive management team consists of 11 individuals who are responsible for the global strategic direction of the Corporation and who have an average of 17 years of experience with Four Seasons. This team is supported by 21 corporate vice presidents, who are responsible for various aspects of the Corporation's daily operations, as well as by 41 general managers, who together have an average of 13 years of experience with Four Seasons. It is a fundamental strategy of Four Seasons to develop its senior management team from within to ensure consistency of the service culture and work ethic.

### *Strong Competitive Position*

The Corporation believes that its competitive position is strengthened by the significant barriers to entry into the luxury segment of the hotel management business. Those impediments include the time and significant capital resources required to establish a well recognized luxury brand name and to obtain management contracts for luxury properties in key locations in strategic markets worldwide. The Corporation also believes that it has developed a unique service culture, depth of management expertise and multiple capital resources over its 37 year history that would be difficult to replicate.



### *Business and Growth Strategy*

The business strategy of Four Seasons is to continue to enhance its industry position and overall profitability through a focused international expansion program that capitalizes on the strengths of its core hotel management operations and the global value of its brand name. In 1997, revenue generated by the hotels and resorts managed by Four Seasons exceeded \$2.1 billion. The Corporation's consolidated revenues from hotel management and hotel ownership from these properties in 1997 was \$240.0 million. From 1993 through 1997, the Corporation increased its fee revenues from hotel management operations from \$60.3 million to \$106.0 million, a 15.2% compounded annual rate of growth. Over this period, the Corporation increased its hotel management earnings at a 22.9% compounded annual rate of growth from \$27.9 million in 1993 to \$63.7 million in 1997, and the profit margin from hotel management operations increased from 46% to 60%.

The Corporation believes that the strength of its brand name, its global marketing presence and its operational expertise result in REVPAR premiums and strong operating profitability for luxury hotels under its management, providing Four Seasons with a competitive advantage in obtaining new management contracts worldwide. REVPAR for Core Hotels<sup>9</sup> worldwide and in North America during 1996, the most recent year for which

<sup>9</sup> The term "Core Hotels" means hotels and resorts which have been managed by the Corporation throughout the year and the previous year. Core hotel is used to give year over year comparisons.

comparable data is available, was US\$176 and US\$182, respectively, 64% and 59% higher than the REVPAR of the worldwide and North American luxury segments, respectively, as compiled by Horwath International.<sup>10</sup>

The Corporation's growth strategy is to seek to utilize its competitive strengths to increase earnings, cash flow, hotel owners' returns, and shareholder value by continuing to improve the performance of its existing hotel portfolio, by generating profitable growth through the acquisition of new management contracts and by capitalizing on opportunities to leverage its luxury brand name.

#### *Growth from Existing Properties*

The Corporation believes opportunities exist for growth within its existing and newly opened properties by increasing market share and REVPAR, thereby improving the hotels' profitability and in turn the Corporation's fee revenues and ownership earnings. Four Seasons increased REVPAR by over 5% from 1996 to 1997 for Core Hotels. This overall increase reflects REVPAR improvements in North America and Europe of approximately 10% and a decline in Asia of approximately 8% caused by the Asian economic crisis experienced over the last six months of 1997. Gross operating profit margins for Core Hotels increased from 32.8% of total hotel revenues in 1996 to 34.5% in 1997. As a result, incentive fees increased 28.7% to \$24.6 million in the year ended December 31, 1997.

#### REVPAR Statistics—Core Hotels (in US\$)

Region	Occupancy		Average Room Rate		REVPAR	
	1997	1996	1997	1996	1997	1996
North America	<b>75.6%</b>	75.3%	<b>\$ 263</b>	\$ 241	<b>\$ 199</b>	\$ 182
Europe	<b>81.7%</b>	81.4%	<b>\$ 458</b>	\$ 418	<b>\$ 374</b>	\$ 340
Asia	<b>68.9%</b>	71.5%	<b>\$ 190</b>	\$ 200	<b>\$ 131</b>	\$ 143
All Core Hotels	<b>73.8%</b>	74.4%	<b>\$ 251</b>	\$ 236	<b>\$ 185</b>	\$ 176

#### *New Hotel and Resort Opportunities*

Having established a network of luxury hotels in many of the world's key financial centres, future expansion is expected to occur primarily in locations that satisfy Four Seasons' objectives of better servicing the travel needs of its existing customer base and attracting new international business travellers to its managed hotels and resorts worldwide. Four Seasons expects that future growth will be in the form of new hotels and resorts or the conversion of existing hotels and resorts and will focus on the Middle East, India, South America, Africa and Europe, as well as selected urban and resort locations in the United States and the Caribbean, where significant consumer demand warrants a luxury hotel or resort property. Overall, Four Seasons plans to increase the number of resorts it manages in order to serve the leisure travel needs of its customers, which should reduce the seasonality of its cash flows. Four Seasons currently has 16 new hotels and resorts under construction or development and is evaluating over 50 additional management opportunities in various locations around the world. The Corporation believes that it will continue to have the opportunity to consider and enter into appropriate new hotel and resort management agreements as a result of its competitive strengths. In 1998, the Corporation expects to assume the management of four additional hotels and resorts; the Four Seasons Hotel, The Ritz Lisbon, which was relaunched under the Corporation's management in January of 1998; the Four Seasons Resort Bali at Sayan which opened during February 1998; the Four Seasons Resort, Kuda Huraa, The Maldives, and the Four Seasons Resort, Leela Beach Goa, India.

<sup>10</sup> Horwath – Worldwide Hotel Industry Study 1997.

*Luxury Vacation Ownership and Residential Properties*

As part of its program to leverage its brand name and capitalize on its existing operational and marketing base, Four Seasons is exploring opportunities such as luxury vacation ownership properties and hotel-serviced residential real estate developments integrated with Four Seasons managed hotels and resorts. In 1997, Four Seasons began the sales and marketing of the first Four Seasons Resort Club, a luxury vacation ownership property adjacent to the Four Seasons Resort Aviara in southern California. Other luxury vacation ownership projects are under development in connection with the Four Seasons resorts planned for Scottsdale, Arizona and Punta Mita, Mexico. Four Seasons expects to pursue similar vacation ownership and residential development initiatives in a number of its future resort and urban developments. Four Seasons expects to earn a range of management fees, including royalty fees for the use of the Four Seasons brand, for the provision of management services in connection with these projects and to receive fee income for overseeing the sales and marketing of the vacation ownership projects.

*Regent Joint Venture*

The Corporation also expects to earn fee income from its December 1996 alliance with Carlson, which is intended to enhance the future development of Regent hotels around the world. The Corporation believes that the growth potential for the Regent brand inherent in this strategic joint venture surpasses the level the Corporation would have been able to achieve for Regent on its own. Carlson is a global leader in hospitality services and marketing, and a successful brand franchiser.

Under the terms of this arrangement, Carlson acquired the rights to the Regent name for new development and has agreed to create a luxury hotel division to embark on a development program to expand the chain of Regent hotels through the addition of new franchise arrangements and management contracts. Four Seasons will continue to manage (and receive base and incentive fees from) the existing nine Regent hotels, and will have the opportunity, and in certain circumstances the obligation, to manage new Regent hotels that require management. In addition to its share of management fees from new Regent hotels, Four Seasons is entitled to receive payments from Carlson calculated as a percentage of the gross royalty revenue of the new franchise development effort. These payments will be nominal as the development program gets underway, and thereafter will be determined by the future success of the new enterprise to generate revenue. Carlson is responsible for the operating costs relating to the Regent venture. The goal of the alliance is to maximize the global value of the Regent brand name by creating a larger chain of Regent properties throughout the world.

*Cash Flow Growth*

The cash flow dynamics of the Corporation have changed as a result of its growth as a hotel management company. The Corporation does not require large amounts of capital to maintain existing management agreements or its hotel ownership positions, which are typically minority interests. In 1997, the Corporation utilized more than 80% of its operating cash flow to make investments that allowed the Corporation to obtain new management agreements.

## INDUSTRY AWARDS

Four Seasons and Regent have each gained worldwide reputations for quality, service and innovation in the luxury segment of the business and leisure travel market. These reputations have been widely acknowledged by the following leading surveys of hotel properties:

### Institutional Investor

Fifteen Four Seasons and Regent hotels were ranked among the world's top 100 hotels in a survey of international financiers published in the September 1997 issue of Institutional Investor.

### AAA Five Diamond Awards

Four Seasons properties received 14 of the 57 lodging awards for 1998. The Four Seasons Hotel Vancouver has received the American Automobile Association Five Diamond Award every year since the awards began in 1977. In addition, in 1998, four Four Seasons restaurants received the prestigious Five Diamond Award for Restaurants, including Truffles Restaurant at the Four Seasons Hotel Toronto.

### Condé Nast Traveler's Readers Choice Awards

Eleven Four Seasons and two Regent properties ranked among the world's top 100 list in the Condé Nast Traveler's 1997 Readers' Choice Awards. Nine Four Seasons hotels were ranked in the "Top 25 U.S. Hotels" category, including Four Seasons Hotel Chicago, which ranked first. In one of their special "Hall of Fame Awards," the magazine gave the Hotels award to Four Seasons saying, "Four Seasons properties... have in common the guiding Fêng Shui of the founder and chairman, Isadore Sharp. Mandarin Oriental and Rosewood are close competitors, but Four Seasons has blended old-world courtesy with high-tech facilities to create the preeminent hotel chain."

### Travel & Leisure

Travel & Leisure's "World's Best" awards in September 1997 listed 17 Four Seasons and Regent hotels among the top 100, including four in the top 20. In a separate category, the Four Seasons Resort Hualalai, Kona, Hawaii was ranked first among "Top 25 Hotels in Hawaii." For the second year, the Four Seasons Resort Nevis ranked first among the "Top 25 Hotels in The Caribbean, Bahamas and Bermuda."

### Gourmet

In the second annual "America's Top Tables" survey of Gourmet magazine readers in October 1997, 10 hotel restaurants managed by Four Seasons were among the "Top 20" in their respective cities. Aujourd'hui at the Four Seasons Hotel Boston was rated number one in Boston.

### Andrew Harper's Hideaway Report

Four Seasons properties received 13 honours in the annual readers' survey on "The World's Best Hotels & Resorts." Nine hotels were voted among the "Top Hotels in Major World Cities."

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## DESCRIPTION OF HOTELS AND RESORTS

Four Seasons properties are comprised of luxury hotels and resorts whose target customers are principally business travellers, corporate and incentive groups and discriminating leisure travellers. Four Seasons urban hotels are centrally located in the commercial and financial districts of the world's leading cities in North America, Asia and Europe. Four Seasons luxury resorts provide extensive recreational facilities and meeting facilities to attract upscale leisure travellers and groups. The following table sets forth certain information relating to each property managed by Four Seasons:

## Properties Managed by Four Seasons:

Hotel and Location	Number of Rooms	Equity Interest of Four Seasons
<b>North America</b>		
Four Seasons Hotel Atlanta, <i>Georgia, USA</i>	246	— <sup>(1)</sup>
Four Seasons Hotel Austin, <i>Texas, USA</i>	292	—
Four Seasons Resort Aviara, <i>California, USA</i>	331	7.3% <sup>(2)(3)</sup>
The Regent Beverly Wilshire Hotel (Beverly Hills), <i>California, USA</i>	295 <sup>(4)</sup>	—
Four Seasons Biltmore Resort (Santa Barbara), <i>California, USA</i>	234	—
Four Seasons Hotel Boston, <i>Massachusetts, USA</i>	288	—
Four Seasons Hotel Chicago, <i>Illinois, USA</i>	343	7.7% <sup>(5)</sup>
The Ritz-Carlton Hotel Chicago, <i>Illinois, USA</i>	430	25% <sup>(6)</sup>
Four Seasons Hotel Houston, <i>Texas, USA</i>	399	—
Four Seasons Resort Hualalai (Kona), <i>Hawaii, USA</i>	250	—
Four Seasons Resort and Club Las Colinas (Dallas), <i>Texas, USA</i>	357	—
Four Seasons Hotel Los Angeles, <i>California, USA</i> <sup>(7)</sup>	285	—
Four Seasons Resort Maui at Wailea, <i>Hawaii, USA</i>	380	—
Four Seasons Hotel Mexico City, <i>Mexico</i>	239	—
Four Seasons Resort Nevis, <i>Nevis</i>	196	—
Four Seasons Hotel Newport Beach, <i>California, USA</i>	285	—
Four Seasons Hotel New York, <i>New York, USA</i>	370	—
Four Seasons Resort Palm Beach, <i>Florida, USA</i>	210	—
Four Seasons Hotel Philadelphia, <i>Pennsylvania, USA</i>	371	—
The Pierre (New York), <i>New York, USA</i>	202 <sup>(8)</sup>	100% <sup>(9)(10)</sup>
Four Seasons Olympic Hotel (Seattle), <i>Washington, USA</i>	450	3.4% <sup>(9)</sup>
Four Seasons Hotel Toronto, <i>Ontario, Canada</i>	380	—
Four Seasons Hotel Vancouver, <i>British Columbia, Canada</i>	385	100% <sup>(9)(11)</sup>
Four Seasons Hotel Washington, <i>District of Columbia, USA</i>	196 <sup>(4)</sup>	—

Properties Managed by Four Seasons *(continued)*:

Hotel and Location	Number of Rooms	Equity Interest of Four Seasons
<b>Asia/Pacific</b>		
Four Seasons Resort Bali at Jimbaran Bay, <i>Indonesia</i>	147	—
Four Seasons Resort Bali at Sayan, <i>Indonesia</i>	47	—
The Regent Hotel Bangkok, <i>Thailand</i> <sup>(12)</sup>	400	—
The Regent Resort Chiang Mai, <i>Thailand</i>	67	—
The Regent Hong Kong, <i>Hong Kong</i>	602	25% <sup>(9)(13)</sup>
The Regent Hotel Jakarta, <i>Indonesia</i>	384	— <sup>(2)(14)</sup>
The Regent Hotel Kuala Lumpur, <i>Malaysia</i>	469	—
Four Seasons Hotel Singapore, <i>Singapore</i>	257	—
The Regent Hotel Singapore, <i>Singapore</i> <sup>(7)</sup>	441	—
The Regent Hotel Sydney, <i>Australia</i> <sup>(15)</sup>	594	—
The Regent Hotel Taipei, <i>Taiwan</i> <sup>(16)</sup>	553	—
Four Seasons Hotel Tokyo, <i>Japan</i>	283	—
<b>Europe</b>		
Four Seasons Hotel Berlin, <i>Germany</i>	204	100% <sup>(9)(17)</sup>
Four Seasons Hotel Istanbul, <i>Turkey</i>	65	—
Four Seasons Hotel, The Ritz Lisbon, <i>Portugal</i>	270	—
Four Seasons Hotel London, <i>England</i>	227	12.5% <sup>(18)</sup>
Four Seasons Hotel Milan, <i>Italy</i>	98	—

(1) The Corporation has advanced a loan of US\$6.3 million of a total commitment of US\$7.5 million in connection with the acquisition of the management of this hotel.

(2) Freehold interest.

(3) The Corporation also has a 7.3% equity interest in the Four Seasons Resort Club Aviara, a vacation ownership project, that is intended to have 240 units at full build out.

(4) The hotel is undergoing a renovation program that will increase the number of rooms.

(5) The Corporation expects to reach an agreement to exchange its 7.7% ownership interest for relief from certain residual funding requirements.

(6) The Corporation expects to reach an agreement to exchange its 25% ownership interest in exchange for the elimination of certain termination provisions contained in the management agreement for that hotel.

(7) Four Seasons received notice in 1992 that the owners of two managed hotels are asserting that Four Seasons' acquisition of Regent, which managed a hotel in the same city, resulted in a breach of the radius restrictions in their respective management agreements. Four Seasons has been in discussions since 1992 with the owners to resolve these issues. The Corporation expects to execute letters of intent with the owners to resolve these disputes in 1998. Under these arrangements, Four Seasons will continue to manage these properties and to receive fee revenues under the applicable management agreements. Definitive documentation relating to such resolution has not yet been executed.

(8) Includes 30 cooperative suites leased from individual owners and operated as hotel rooms.

(9) Leasehold interest.

(10) Initial term of lease expires in January 2002. The Corporation has the option to renew for a further 30 years on the same terms and conditions. (See discussion in Management's Discussion and Analysis on page 31.)

(11) Initial term of lease expires in January 2000. The Corporation has given notice of its intent to renew for a further 20 years on the same terms and conditions. (See discussion in Management's Discussion and Analysis on page 31.)

(12) Management agreement expires in December 2005.

(13) Initial terms of operating lease and management agreement expire in December 2000. There is an option to extend the lease agreement for an additional 10 years. The Corporation owns a 25% interest in the corporation that owns the operating lease for the hotel. However, the owner of the 75% interest in the lessee corporation is a company controlled by the landlord. While Four Seasons does not control the extension rights, it intends to take whatever action may be necessary to protect its interest in the lease and its interest in the management agreement.

(14) Four Seasons' advance of a loan of US\$5.0 million is convertible into a 5% equity interest in the hotel, subject to regulatory approval.

(15) The owner of this hotel went into receivership in 1997. The receiver is now attempting to sell the hotel. The receiver has not agreed to adopt the management agreement for this hotel, nor has it agreed to cause any prospective purchaser to adopt the management agreement of this hotel. The Corporation intends to take whatever action it may deem necessary in order to protect its interest in the management agreement for this hotel.

(16) Management agreement expires in December 2000. However, the annual base management fee of US\$1.9 million from the hotel ceases in 1998.

(17) See discussion in Management's Discussion and Analysis on pages 31 and 32.

(18) The Corporation has loans outstanding of £27.5 million in connection with this hotel. (See discussion in Management's Discussion and Analysis on page 32.)

(continued)

Four Seasons currently has 16 hotels and resorts under construction or development. The following table sets forth certain information relating to these properties:

Hotel and Location <sup>(1)</sup>	Approximate Number of Rooms	Scheduled Opening	Proposed Freehold Equity Interest
Four Seasons Hotel Amman, <i>Jordan</i>	195	2000	5%
Four Seasons Hotel Leela Palace Bangalore, <i>India</i>	250	1999	—
Four Seasons Hotel First Residence Cairo, <i>Egypt</i>	273	1999	—
Four Seasons Hotel Nile Plaza Cairo, <i>Egypt</i>	384	2000	9%
Four Seasons Hotel Caracas, <i>Venezuela</i>	214	1999	— <sup>(2)</sup>
Four Seasons Hotel Doha, <i>Qatar</i>	335	2000	—
Four Seasons Hotel Dublin, <i>Ireland</i>	250	2000	— <sup>(3)</sup>
Four Seasons Resort Leela Beach Goa, <i>India</i>	167	1998	—
Four Seasons Resort Kuda Huraa, <i>Maldives</i>	100	1998	— <sup>(4)</sup>
Four Seasons Hotel Las Vegas, <i>Nevada, USA</i>	425	1999	—
Four Seasons Hotel, George V Paris, <i>France</i>	270	1999	— <sup>(5)</sup>
Four Seasons Resort Punta Mita, <i>Mexico</i>	100	1999	31% <sup>(6)</sup>
Four Seasons Hotel Riyadh, <i>Saudi Arabia</i>	242	2001	—
Four Seasons Hotel San Francisco, <i>California, USA</i>	285	2000	— <sup>(7)</sup>
Four Seasons Resort Scottsdale, <i>Arizona, USA</i>	170	1999	— <sup>(8)</sup>
Four Seasons Resort Sharm el Sheikh, <i>Egypt</i>	241	1999	—

(1) Information concerning hotels under construction or under development is based upon agreements and letters of intent and may be subject to change. The dates of opening and proposed equity interests have been estimated by management. There can be no assurance that the date of opening will be achieved, that estimated equity interests or advances will not change or that these projects will be completed.

(2) Four Seasons has agreed to make a loan of up to US\$5.0 million in connection with the completion of this hotel and to issue a US\$6.0 million letter of credit to the first mortgage lender to secure at least US\$2.0 million annual income available for debt service in the first 10 years of operation.

(3) The Corporation has entered into a IRE3 million guarantee to fund total cost of construction overruns after a 10% contingency. The guarantee may only be called after the opening of the hotel.

(4) The Corporation has agreed to make a loan of US\$3.0 million.

(5) The Corporation has made a loan of French francs 161.6 million to an affiliate of Kingdom in connection with the acquisition of the long-term management agreement for this hotel. The Corporation has commenced supervisory management and oversight of a major refurbishing program for the hotel.

(6) Although the Corporation has advanced funds equivalent to a 31% equity interest in the resort, it is expected that the Corporation will reduce this equity interest to 9%.

(7) The Corporation has agreed to make a loan of US\$8.6 million.

(8) The Corporation is currently making arrangements with its equity partners and its residual equity interest is yet to be determined.

## HOTEL MANAGEMENT OPERATIONS

### Management Agreements

Four Seasons generally supervises all of its hotels pursuant to separate management agreements or, in three hotels, lease agreements with third-party hotel owners. The Corporation's management agreements currently have remaining terms ranging from three years to in excess of 100 years, with an average remaining term of approximately 57 years for Four Seasons hotels and approximately 17 years for Regent hotels, including extension periods available at Four Seasons' option.

Under its management agreements, Four Seasons generally oversees all aspects of the day-to-day operations of each hotel on behalf of the hotel owner, including hiring, training and supervising staff, maintaining sales and marketing efforts, providing hotel accounting, purchasing and budgeting functions, providing support for management information systems and applications and providing for the safekeeping, repair and maintenance of the physical assets. Four Seasons performs these services within the guidelines contained in annual operating and capital plans that are submitted to the owners of the hotels during the last quarter of the preceding year for their review and approval. For these services, Four Seasons earns a number of fees including a base fee equal to a percentage of hotel gross operating revenue, and may earn an incentive fee based on certain operating results of the hotel.

Four Seasons provides centralized reservations services, worldwide sales offices, marketing programs and advertising services to the Four Seasons hotels under its management and supplementary sales support to Regent hotels which it manages. All other marketing and reservation services for Regent are provided by Carlson.<sup>11</sup>

Four Seasons also provides a centralized purchasing system for goods to maintain uniform quality and to control hotel operating costs at all the Four Seasons hotels and certain Regent hotels. In return for this service, Four Seasons receives a fee calculated as a percentage of the purchased goods.

Although the owners generally are responsible for financing and managing the development of hotels, Four Seasons typically plays a significant pre-opening role. Four Seasons provides advice with respect to the design and construction specifications of hotels during the development stage to ensure that they meet Four Seasons' standards. Four Seasons earns a variety of fees for these pre-opening services. Four Seasons may also assist owners in connection with the refurbishment of hotels in return for which it earns a refurbishing fee.

Under the Corporation's management agreements, the hotel owner is responsible for the funding of the hotel's capital expenditures and working capital requirements, including the salaries and benefits of all hotel employees. The hotel owner typically is required to set aside a percentage of hotel revenue as a capital reserve for the hotel. Such percentages typically range from 3% to 4% of hotel gross operating revenues. Four Seasons proposes an operating plan and capital expenditure budget to the hotel owner for approval on an annual basis. All structural changes, major refurbishing programs and major repairs require the separate approval of hotel owners prior to implementation by Four Seasons.

Total fee revenues are geographically diversified around the world, with only North America as a geographic segment contributing in excess of 40% of all fee revenues in 1997 (69% in 1997 as compared to 62% in 1996). With the opening of hotels and resorts under construction and development, the Corporation expects greater diversification of fee revenues over the next five years.

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<sup>11</sup> See "Regent Joint Venture" on page 16.

### Vacation Ownership

The Corporation is responsible for the sales and marketing of the vacation ownership units using the Four Seasons brand. For this service it receives a percentage of the gross selling price of the units. The Corporation also receives a fee calculated as a percentage of the gross selling price of the units for use of the Four Seasons brand name. In addition, the Corporation will receive an ongoing management fee from the unit owners for the management of the day-to-day operations of the completed projects.

### Sales and Marketing

Four Seasons is responsible for the development of overall sales and marketing strategies for the portfolio of hotels, which include building international awareness for the Corporation's brand and developing local market potential for specific hotels. Four Seasons' marketing efforts are coordinated through its headquarters in Toronto and are targeted at the luxury segment of the market worldwide. Four Seasons' customer mix consists principally of business travellers, groups (including corporate and incentive), and leisure travellers. These customer segments accounted for an estimated 43%, 27% and 30%, respectively, of total room nights in 1997. The corporate marketing staff also oversees the planning and implementation of hotel marketing programs and organizes the training and development programs for the global sales force and the local sales and marketing staff.

Four Seasons has a global sales force of over 65 salespeople in 13 integrated sales offices in Atlanta, Chicago, Dallas, Frankfurt, Hong Kong, London, Los Angeles, New York, Singapore, Sydney, Tokyo, Toronto and Washington, D.C. Key objectives of the sales force are to attract groups and corporate business travellers for the hotels and resorts, as well as to establish personal contacts with nationally recognized travel agencies. In addition, a total of over 260 salespeople are employed locally at hotels under management. The local marketing strategy concentrates on developing rooms and food and beverage business for hotels locally and regionally, and promoting the hotel as a centre of community activity with a view to increasing local revenues.

Four Seasons also provides an international corporate advertising program that develops and places advertising for the Four Seasons hotels and oversees each hotel's promotional programs. The Corporation's advertisements are designed to enhance consumer awareness of Four Seasons' luxury service and the value that such services provide to the business and leisure traveller. A similar brand advertising program highlighting specific properties is coordinated among the individual Regent hotels by Carlson.

The Corporation has one reservation centre for Four Seasons branded hotels and resorts. The Corporation's global reservation service system provides reservation services in the local language in major North American, Asian and European cities, in a total of 26 markets worldwide. Airline reservation systems are another key part of Four Seasons' global distribution network. Four Seasons reservation systems are fully integrated with airline booking systems worldwide. This enhances service to travel agents around the world by giving them access to electronically updated hotel inventory and room rates. The Regent reservation system is operated by Carlson on behalf of all Regent hotels and provides a level of service intended to be comparable to the Four Seasons system.

The Corporation receives corporate sales and marketing fees, centralized reservation service fees and corporate advertising fees from most hotels, thereby enabling it to recover substantially all of the costs of providing these services.

### Hotel Management Resources

Each Four Seasons hotel is managed by a general manager and supported by an area vice president or by a regional vice president (who also is a general manager) and other corporate vice presidents. The size of each hotel's management team

and its hourly staff varies, based on the size and business volume of the particular property. Hotel management monitors staffing levels on a daily basis to optimize labour productivity and minimize costs.

A general manager is responsible for supervising the day-to-day operations of a single hotel and is compensated in part based on the operational performance of that hotel. Four Seasons general managers report directly to one of seven regional vice presidents or directly to an area vice president. A regional marketing director, an area controller and a regional human resource director complete the regional support team. The majority of these individuals are full-time employees of a Four Seasons hotel, with a portion of their time being devoted to regional activities. The Corporation believes its regional management structure is a key component in Four Seasons' ability to deliver and maintain the highest and most consistent standards of product quality and service at each of its hotels in a cost effective manner, especially as it expands globally.

From the corporate level, the Corporation provides each hotel with the benefits of management services that are delivered by a network of experienced executives, corporate personnel and area managers. The Corporation also provides or arranges assistance and training to each hotel's employees for administration, operations, rooms and guest service, reservations, maintenance and engineering, human resources and benefits. Other services provided by the Corporation include advice and assistance with accounting, tax, legal, risk management, treasury, internal audit and credit services.

## Employees

Four Seasons directly employs and is responsible for approximately 260 people at the worldwide sales offices, the central reservations offices and the corporate offices. In addition, there are approximately 22,000 employees located at the 41 hotels and resorts managed by Four Seasons. All costs relating to hotel employees including wages, salaries and health and insurance benefits are the responsibility of the hotel owners and are generally paid out of the operating cash flow of the hotels. Hotel management and corporate staff share responsibility for the selection and training of hotel employees and for ensuring, through progressive career development, an adequate supply of mobile, qualified and experienced staff to match the growth of the Corporation's operations internationally. Maintenance of employee communication, motivation and morale at high levels is necessary to meet the expectations of Four Seasons' clientele. A significant effort has been devoted to developing customized hiring practices, training and career development programs and approaches in this context.

Of the 41 hotels and resorts under management, 16 are covered by collective bargaining agreements.

## HOTEL OWNERSHIP OPERATIONS

Four Seasons holds an ownership interest in, or has made loans to, 11 of the 41 hotels and resorts currently under management and has made, or expects to make, investments in, or loans to, eight of the hotels and resorts under construction or development. Four Seasons' material investments relate to a 100% leasehold interest in the Four Seasons Hotel Vancouver, The Pierre in New York, and the Four Seasons Hotel Berlin,<sup>12</sup> and a 25% leasehold interest in The Regent Hong Kong, and a 25% investment in The Ritz-Carlton Hotel Chicago.<sup>13</sup> The Corporation has loans outstanding of £27.5 million in connection with the Four Seasons Hotel London.<sup>14</sup> The Corporation has made a loan of French francs 161.6 million (approximately \$38 million) in connection with the Hôtel George V in Paris.

12 See discussion under "Four Seasons Hotel Berlin" on page 31.

13 The Corporation expects to reach an agreement to dispose of its interest in The Ritz-Carlton Hotel Chicago in exchange for the elimination of certain termination provisions in the management agreement for that hotel.

14 See discussion under "Four Seasons Hotel London" on page 32.

(continued)

Although Four Seasons will continue to make loans or minority investments to secure long-term management contracts, these investments will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment and risk profile.

Four Seasons works closely with the owners and investors in developing new properties and acquiring existing luxury properties to be managed by Four Seasons. To the extent required, Four Seasons makes capital investments to obtain long-term management contracts for these hotels or resorts. However, Four Seasons generally limits its total capital exposure to no more than 20% of the total equity required for the new property and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation structures its ownership interests separately from its management interests so as to enable it to dispose of an ownership interest as sale opportunities arise, without affecting its management interests.

## INTELLECTUAL PROPERTY

In the highly competitive service industry in which Four Seasons operates, trade names and trademarks are very important in the sales and marketing of those services. Four Seasons has a significant number of trade names, trademarks and service marks, and significant time and effort are spent each year on surveillance, registration and protection of trade names, trademarks and service marks, which Four Seasons believes have become synonymous in the lodging industry with a standard of attention to detail and an unwavering dedication to excellence.

Four Seasons and Carlson have entered into an arrangement pursuant to which Carlson has acquired rights to the Regent name for new development. Carlson now owns and has exclusive right to use the Regent name and related trademarks, service marks and logos and has granted Four Seasons the right to use the Regent name and related marks and logos at Regent properties managed by Four Seasons.<sup>15</sup> The costs associated with the maintenance of the Regent brand and marks are the obligation of Carlson.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

### Two-Year Summary by Quarter

<i>(In millions of dollars except per share amounts)</i>	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	1997 <sup>(1)</sup>	1996	1997 <sup>(1)</sup>	1996	1997 <sup>(1)</sup>	1996	1997 <sup>(1)</sup>	1996
Consolidated revenues	\$ 71.7	\$ 35.2	\$ 57.3	\$ 29.6	\$ 61.4	\$ 29.1	\$ 49.6	\$ 26.8
Earnings (loss) before other operating items:								
Hotel management	18.5	16.6	16.0	13.6	14.8	13.3	14.3	12.2
Hotel ownership	7.6	2.8	2.7	1.6	5.5	2.4	(0.8)	1.9
Net earnings:								
Total	\$ 20.3	\$ 11.2	\$ 1.1 <sup>(2)</sup>	\$ 6.5	\$ 13.6	\$ 7.1	\$ 5.8	\$ 5.0
Basic and fully diluted earnings per share	\$ 0.61	\$ 0.39	\$ 0.03 <sup>(2)</sup>	\$ 0.23	\$ 0.41	\$ 0.24	\$ 0.19	\$ 0.18

(1) Includes the consolidation of the result of The Pierre in New York and the Four Seasons Hotel Vancouver.

(2) The 3rd quarter 1997 amounts include the effect of an accounting loss of \$12.0 million (\$0.37 per share) relating to the Corporation's repurchase of US\$101.5 million of its 9-1/8% Notes. Excluding this loss, normalized net earnings would have been \$13.1 million and normalized basic and fully diluted earnings per share would have been \$0.40 for the 3rd quarter 1997.

15 See "Regent Joint Venture" on page 16.

# FIVE - YEAR REVIEW

<i>(In millions of dollars except per share amounts)</i>	1997	1996	1995	1994	1993
<b>Statements of Operations Data:</b>					
Consolidated revenues <sup>(1)</sup>	\$ 240.0	\$ 120.7	\$ 135.6	\$ 128.5	\$ 101.1
<b>Hotel Management Operations</b>					
Fee revenues	\$ 106.0	94.7	\$ 88.5	\$ 79.9	\$ 60.3
Hotel management earnings before other operating items	63.7	55.7	51.8	45.9	27.9
<b>Hotel Ownership Operations</b>					
Revenues	135.3	17.6	42.5	43.1	38.0
Distribution from hotel investments	6.0	9.2	6.0	6.8	3.9
Hotel ownership earnings before other operating items	15.1	8.7	14.9	14.2	7.2
Earnings before other operating items	78.7	64.3	66.7	60.0	35.1
Depreciation and amortization	(15.8)	(14.0)	(16.9)	(16.9)	(14.8)
Loss on repurchase of debt <sup>(2)</sup>	(12.0)	—	—	—	—
Provision for loss <sup>(3)</sup>	—	—	(95.0)	—	(127.0)
Earnings (loss) from operations <sup>(4)</sup>	51.3	50.6	(45.0)	43.6	(101.9)
Interest expense, net	(8.9)	(18.8)	(25.7)	(27.2)	(17.9)
Earnings (loss) before taxes <sup>(5)</sup>	42.4	31.8	(70.7)	9.6	(119.8)
Income tax expense	(1.6)	(2.0)	(3.9)	(2.8)	(1.0)
Net earnings (loss)	\$ 40.8	\$ 29.9	\$ (74.6)	\$ 6.8	\$ (120.8)
Earnings (loss) per share:					
Basic and fully diluted	\$ 1.24	\$ 1.04	\$ (2.62)	\$ 0.24	\$ (4.35)
Weighted average number of shares (millions) <sup>(6)</sup>	32.8	28.7	28.4	27.9	27.8
<b>Changes in Financial Position:</b>					
Cash provided by operations	\$ 64.8	\$ 43.7	\$ 38.7	\$ 44.8	\$ 12.5
Long-term receivables	(35.9)	0.4	(32.9)	(10.4)	(8.1)
Disposal of long-term receivables	—	—	13.2	—	—
Investments	(17.7)	(21.1)	(14.6)	(11.8)	(31.4)
Disposal of hotel investments, net	13.0	4.3	65.7	51.7	—
Capital expenditures	(10.5)	(1.3)	(2.4)	(1.6)	(1.5)
Dividends	(3.2)	(3.0)	(3.1)	(3.1)	(3.1)
<b>Balance Sheet Data:</b>					
Total assets	\$ 453.2	\$ 385.3	\$ 381.6	\$ 491.5	\$ 518.1
Total debt	140.2	240.0	267.6	308.6	357.5
Shareholders' equity	254.5	88.1	57.2	137.2	124.7

(continued)

## FIVE - YEAR REVIEW (continued)

(In millions of dollars except per share amounts)	1997	1996	1995	1994	1993
<b>Other Data:</b>					
Total revenues of all managed hotels <sup>(7)</sup>	<b>\$ 2,119.4</b>	\$ 1,901.5	\$ 1,837.9	\$ 1,698.2	\$ 1,351.9
Fee revenues as a % of Consolidated revenues	<b>44.2%</b>	78.5%	65.2%	62.2%	59.6%
Percentage of Fee revenues derived outside					
North America	<b>31.2%</b>	38.3%	40.9%	38.8%	35.9%
Hotel management operating margin <sup>(8)</sup>	<b>60.1%</b>	58.8%	58.5%	57.4%	46.3%
Hotel management earnings before other					
operating items as a % of Earnings before					
other operating items	<b>80.9%</b>	86.5%	77.6%	76.4%	79.6%
EBITDA <sup>(9)</sup>	<b>\$ 78.7</b>	\$ 64.3	\$ 66.7	\$ 60.0	\$ 35.1
Debt, net of cash	<b>\$ 114.9</b>	\$ 224.6	\$ 230.9	\$ 299.2	\$ 345.6
Market price per share at year-end	<b>\$ 45.00</b>	\$ 27.75	\$ 19.00	\$ 16.25	\$ 13.00
Shares outstanding (millions) <sup>(6)</sup>	<b>33.7</b>	28.7	28.5	28.4	27.8
Market capitalization at year-end	<b>\$ 1,517.4</b>	\$ 797.2	\$ 541.3	\$ 461.9	\$ 361.1
Employees	<b>22,000</b>	21,000	21,500	21,500	20,050

- (1) Consolidated revenues are comprised of fee revenues from hotel management operations, revenues from hotel ownership operations and distributions from hotel investments, less fees from hotel ownership operations to hotel management operations.
- (2) The loss on repurchase of debt in 1997 relates to the Corporation's repurchase of US\$101.5 million of its 9-1/8% Notes.
- (3) Provision for losses on certain hotel investments, long-term receivables and related assets were made in 1993 and 1995 in order to write those investments down to their estimated net recoverable values and to provide for likely losses on debt guarantees and lease commitments relating to certain of the hotel investments. Most of these assets were subsequently sold in the period from January 1994 to December 1996 for aggregate net proceeds approximating the written down values. Accordingly, no further net gains or losses were recorded.
- (4) Earnings (loss) from operations represents earnings before other operating items plus (i) investment income less (ii) depreciation and amortization less (iii) loss on repurchase of debt less (iv) provision for loss.
- (5) Earnings (loss) before taxes represents earnings (loss) from operations plus (i) interest income less (ii) interest expense less (iii) costs of \$6.8 million associated with the sale of shares in 1994.
- (6) Weighted average number of shares and shares outstanding are comprised of Limited Voting Shares and Variable Multiple Voting Shares.
- (7) Total revenues of all managed hotels consist of rooms, food and beverage, telephone and other revenues of all the hotels which the Corporation manages.
- (8) Hotel management operating margin is equal to hotel management earnings before other operating items divided by fee revenues.
- (9) EBITDA is equal to net earnings (loss) plus (i) income tax expense less (ii) income tax recovery plus (iii) costs associated with sale of shares plus (iv) interest expense less (v) interest income plus (vi) provision for loss plus (vii) loss on repurchase of debt plus (viii) depreciation and amortization less (ix) investment income. EBITDA is equivalent to earnings before other operating items. EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles, and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by generally accepted accounting principles. EBITDA is included herein because management believes that certain investors find it to be a useful tool for measuring the ability to service debt.

# SUMMARY HOTEL OPERATING DATA

The following table sets forth certain summary hotel operating data for hotels and resorts under Four Seasons management in the years shown.

<i>(unaudited)</i>	1997	1996	1995	1994	1993
<b>All Managed Hotels:</b>					
<i>Worldwide</i>					
No. of properties	39 <sup>(1)</sup>	37	38	38	37
No. of rooms	12,205 <sup>(1)</sup>	11,628	12,663	12,850	12,591
<i>North America</i>					
No. of properties	24	22	22	23	23
No. of rooms	7,414	6,837	7,152	7,481	7,476
<i>Asia/Pacific</i>					
No. of properties	11 <sup>(1)</sup>	11	14	12	11
No. of rooms	4,197 <sup>(1)</sup>	4,197	5,186	4,735	4,481
<i>Europe</i>					
No. of properties	4 <sup>(1)</sup>	4	2	3	3
No. of rooms	594 <sup>(1)</sup>	594	325	634	634
<b>Stabilized Hotels: <sup>(2)</sup></b>					
<i>Worldwide</i>					
No. of properties	36	33	36	36	31
No. of rooms	11,424	10,725	12,212	12,286	10,831
Occupancy <sup>(3)</sup>	73.7%	74.9%	71.7%	70.9%	67.6%
ADR <sup>(4)</sup>	\$ 339.45	\$ 316.27	\$ 278.79	\$ 255.83	\$ 214.15
REVPAR <sup>(5)</sup>	\$ 250.34	\$ 236.75	\$ 199.94	\$ 181.43	\$ 144.78
Gross operating margin <sup>(6)</sup>	33.7%	32.6%	28.9%	26.4%	21.4%
<i>North America</i>					
No. of properties	22	21	22	22	22
No. of rooms	6,837	6,587	7,152	7,174	7,109
Occupancy <sup>(3)</sup>	75.2%	75.3%	70.9%	69.7%	68.5%
ADR <sup>(4)</sup>	\$ 369.37	\$ 329.22	\$ 293.63	\$ 271.09	\$ 224.86
REVPAR <sup>(5)</sup>	\$ 277.70	\$ 247.96	\$ 208.07	\$ 189.03	\$ 154.00
Gross operating margin <sup>(6)</sup>	33.2%	31.3%	27.9%	24.5%	19.2%
<i>Asia/Pacific <sup>(7)</sup></i>					
No. of properties	11	10	12	11	8
No. of rooms	4,197	3,813	4,735	4,478	3,495
Occupancy <sup>(3)</sup>	70.8%	73.5%	72.5%	73.1%	66.0%
ADR <sup>(4)</sup>	\$ 257.54	\$ 267.46	\$ 238.71	\$ 214.63	\$ 174.82
REVPAR <sup>(5)</sup>	\$ 182.32	\$ 196.45	\$ 173.15	\$ 156.87	\$ 115.42
Gross operating margin <sup>(6)</sup>	33.3%	33.8%	29.2%	28.4%	25.3%
<i>Europe</i>					
No. of properties	3	2	2	3	1
No. of rooms	390	325	325	634	227
Occupancy <sup>(3)</sup>	79.2%	81.4%	78.9%	69.2%	64.3%
ADR <sup>(4)</sup>	\$ 597.68	\$ 569.60	\$ 515.11	\$ 382.99	\$ 460.45
REVPAR <sup>(5)</sup>	\$ 473.22	\$ 463.71	\$ 406.64	\$ 265.04	\$ 295.97
Gross operating margin <sup>(6)</sup>	41.3%	41.7%	39.6%	31.8%	33.7%

- (1) Since December 31, 1997, the Corporation has commenced management of the Four Seasons Hotel, The Ritz Lisbon which has 270 rooms and the Four Seasons Resort Bali at Sayan which has 47 rooms.
- (2) The term "Stabilized Hotels" means hotels and resorts that were fully open under Four Seasons management throughout a particular year and during the last quarter of the prior year. Stabilized Hotels data is used when information for more than two years is provided.
- (3) Occupancy percentage is defined as the total number of rooms occupied divided by the total number of rooms available.
- (4) ADR is defined as average daily room rate per room occupied.
- (5) REVPAR is defined as average room revenue per available room. REVPAR is a commonly used indicator of market performance for hotels and represents the combination of the average daily room rate and the average occupancy rate achieved during the period. REVPAR does not include food and beverage or other ancillary revenues generated by a hotel.
- (6) Gross operating margin represents gross operating profit as a percent of gross operating revenue.
- (7) Excludes results in 1993 for the Four Seasons Hotel Tokyo and The Regent Taipei which are Stabilized Hotels but for which operating results are not available.

(continued)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## FINANCIAL OBJECTIVES

The financial objectives of the Corporation over the next few years can be summarized as follows:

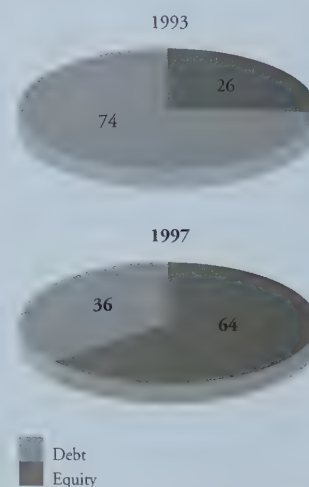
- Identify and pursue opportunities that allow the Corporation to maintain high profit margins in and cash flow from its hotel management operations and earn significant returns on invested capital.
- Continue to improve profitability of existing hotels under management.
- Identify and pursue opportunities to acquire the management of existing unbranded hotels, or groups of hotels, which utilize the Corporation's cash flow to enhance long-term earnings growth.
- Continue to develop the vacation ownership business which is expected to provide substantial fee revenues and returns on invested capital.
- Identify and coordinate with Carlson opportunities to franchise and manage hotels under the Regent brand.
- Maintain an investment grade balance sheet and low cost of capital to facilitate future financing of the Corporation's growth initiatives.

## OVERVIEW OF 1997

The Corporation has achieved a number of important strategic objectives over the past 12 months. The equity issue in February and the corporate debt refinancing in July (described below) significantly strengthened the Corporation's balance sheet, which should allow Four Seasons to continue to pursue an aggressive growth program. The key financial accomplishments include the following:

- Normalized net earnings increased 76.8% to \$52.8 million (\$1.61 earnings per share), compared to net earnings of \$29.9 million for 1996 (\$1.04 earnings per share). This improvement reflects continued growth in the hotel management business, strong ownership earnings from The Pierre Hotel in New York and the Four Seasons Hotel Vancouver, which were both consolidated effective December 30, 1996, and lower interest costs resulting from declining debt levels and the refinancing of high-yield debt with investment grade debt.
- Hotel management operations contributed 81% of total earnings before other operating items.
- The profit margin on hotel management operations increased to over 60% for the first time.
- REVPAR for Core Hotels in North America and Europe increased approximately 10%. Management fee revenues from hotels in North America and Europe represented approximately 74% of fee revenue in 1997.
- The Corporation successfully acquired the management contracts for the Four Seasons Hotel, The Ritz Lisbon and the Four Seasons Hotel Atlanta. Also, during the year the Four Seasons Resort Aviara opened and renovations began at the Hôtel George V, which will reopen during 1999 as the Four Seasons Hotel, George V Paris.
- In February 1997, FSHI issued 4,370,000 Limited Voting Shares for net proceeds of approximately \$114 million. The Limited Voting Shares of FSHI also began trading on the New York Stock Exchange under the ticker symbol "FS."
- The Corporation redeemed US\$101.5 million of its 9-1/8% Notes, due July 1, 2000, using cash generated from its operations, together with proceeds of the equity issuance and the successful placement of \$100 million 6% debentures due July 2, 2002.
- The Corporation's long-term debt, net of cash, decreased from \$225 million as at

Capital Structure  
(percent)



December 31, 1996 to \$115 million as at December 31, 1997, resulting in an improvement in the debt to equity ratio, net of cash, from 2.6:1 in 1996 to 0.5:1 in 1997.

- The Corporation continued to manage its real estate ownership risk profile by disposing of its minority ownership investment in the Four Seasons Hotel Washington and agreeing to dispose of its interests in The Ritz-Carlton Hotel Chicago and the Four Seasons Hotel Chicago. These investment dispositions are expected to enhance the Corporation's management earnings by facilitating an increase in the number of rooms under management at the Four Seasons Hotel Washington and an increase in the management fees from The Ritz-Carlton Hotel Chicago.
- The Corporation successfully launched its first vacation ownership venture, located at Aviara in Carlsbad, California. On-site sales of the vacation ownership units began in August 1997, and the owners began occupying the units in December 1997. Sales of the units matched the business plan for the year. A vacation ownership project which is under construction in Punta Mita, Mexico, is expected to begin pre-sales in the fourth quarter of 1998. Another vacation ownership project is under development in Scottsdale, Arizona.
- The Corporation successfully completed the formation of the strategic alliance with the Carlson Hospitality Group of Minneapolis to franchise the Regent brand.
- The Corporation deployed its 1997 year-end cash reserves by providing the acquisition financing for the Four Seasons Hotel London in the first quarter of 1998. The Corporation also significantly improved the management terms in connection with this hotel.

#### OPERATIONAL AND FINANCIAL REVIEW AND ANALYSIS

Four Seasons has two operating segments: hotel management operations and hotel ownership operations. It is Four Seasons' objective to maximize its hotel management operations and generally to only make investments in hotel ownership, where required, to secure additional management opportunities or to improve the management fee economics from existing hotels. Revenues from hotel management operations and hotel ownership operations as a percentage of consolidated revenues are set forth in the following table. The table also includes earnings before other operating items, interest and taxes, (EBITDA) from hotel management operations and hotel ownership operations as a percentage of total EBITDA. The significant increase in the percentage of consolidated revenues and EBITDA from hotel ownership operations is due to the consolidation of the operating results of The Pierre in New York and the Four Seasons Hotel Vancouver beginning in 1997.

	1997	1996	1995	1994	1993
Consolidated revenues:					
Fee revenues from hotel management	44.1%	78.5%	65.2%	62.2%	59.6%
Revenues from hotel ownership	56.4	14.6	31.3	33.5	37.6
Distributions from hotel investments	2.5	7.6	4.5	5.3	3.8
Fees from hotel ownership to hotel management	(3.0)	(0.7)	(1.0)	(1.0)	(1.0)
	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA: <sup>(1)</sup>					
Hotel management operations	80.9%	86.5%	77.6%	76.4%	79.6%
Hotel ownership operations	19.1	13.5	22.4	23.6	20.4
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Earnings before other operating items, interest and taxes.

(continued)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## Hotel Management Operations

Four Seasons is principally a hotel management company with hotel management earnings representing 81% of total earnings before other operating items in 1997. Under its management agreements, Four Seasons generally oversees all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, Four Seasons receives a variety of fees including a base fee calculated as a percentage of gross operating revenues of the hotel. In addition, Four Seasons may receive incentive fees based on the operating performance of the hotel.

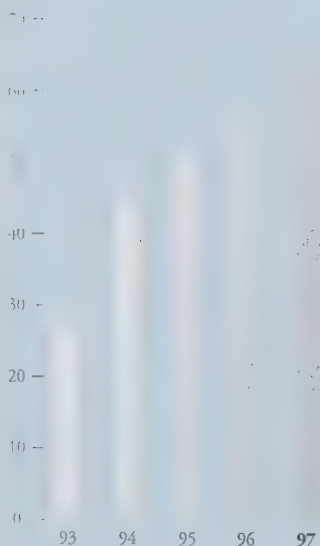
Through economies of scale, coordinated international marketing efforts, sophisticated labour management controls and food and beverage purchasing systems, Four Seasons generally has enhanced the profitability of hotels under its management and increased its participation in the hotels' operating profits through its incentive fees.

In addition to overseeing day-to-day operations of its hotels, Four Seasons provides management services including developing and implementing sales and marketing strategies, operating a central reservations system, assisting with sourcing the financing of and managing the development of new hotels, providing advice with respect to the design and construction of new or renovated hotels, assisting with the refurbishment of hotels, and providing a centralized purchasing system for hotel goods.

General and administrative expenses for hotel management operations are incurred to provide the management services outlined in the previous paragraph together with and including those items normally associated with the Corporation's corporate overhead, such as operations, finance, computer services, accounting, control, planning, legal, development and other costs of maintaining the corporate office.

The Corporation's general and administrative expenses are relatively stable. As a result, the Corporation derives substantial operating leverage, whether from the increases in management fees from existing contracts or the addition of new management agreements. From 1993 to 1997, hotel management fee revenues and hotel management earnings before other operating items have grown at compounded annual growth rates of 15.2% and 22.9%, respectively. Hotel management earnings before other operating items as a percentage of fee revenues (hotel management profit margin) increased from 46.3% to 60.1% from 1993 to 1997. Hotel management fees and profitability are expected to increase in 1998 and beyond as a result of the combination of (i) anticipated REVPAR improvements in hotels under management, (ii) a full year of management fee revenues from the properties acquired or opened in 1997, including the first vacation ownership project, (iii) the addition of fee revenue from hotels added to the portfolio in 1998, and (iv) incremental fees from enhanced management contracts.

Hotel Management  
Operations EBITDA  
(millions)



## Hotel Ownership Operations

Hotel ownership earnings in 1997 include the consolidated results of The Pierre in New York (100%), the Four Seasons Hotel Vancouver (100%) and The Ritz-Carlton Hotel Chicago (25%). In addition, the Corporation recognizes as revenue dividend distributions in respect of its 25% interest in The Regent Hong Kong and the profit distribution from its other minority interests.

In 1998, hotel ownership earnings are expected to include the consolidated results of the Four Seasons Hotel Vancouver and The Pierre in New York. In addition, the Corporation will begin consolidating the operating results of the Four Seasons Hotel Berlin upon the formal handover of the hotel lease, the timing of which depends on the outcome of an ongoing dispute (see Four Seasons Hotel Berlin below). The Corporation expects to enter into an agreement to dispose of its 25% interest in The Ritz-Carlton Hotel Chicago in exchange for the elimination of certain management contract termination provisions. In a separate proposed transaction the management terms of this contract will be enhanced.

### *Leasehold Interests*

The Corporation has been in discussions with the landlords of the Four Seasons Hotel Vancouver and The Pierre in New York since late 1994 to revise their respective lease structures to allocate major capital expenditure requirements, and in the case of Vancouver, property taxes, more equitably between the parties. To preserve its economic interest in the Vancouver leasehold, the Corporation has given notice to the landlord that it intends to renew the lease for the Four Seasons Hotel Vancouver for a further 20-year period beginning in 2000. Discussions with the landlord relating to the realty taxes are continuing. The lease provides for a maximum annual lease payment of \$2.5 million.

In addition, discussions with the landlord of The Pierre in New York are continuing. If these discussions do not result in an arrangement satisfactory to Four Seasons, the lease for The Pierre, which expires in January 2002, may not be renewed. If the lease is not renewed, the Corporation's management of The Pierre would likely cease. If this occurred it is the Corporation's intention to seek another hotel management opportunity in New York. Because the Corporation has not decided whether to renew this lease, note 13(a) to the consolidated financial statements, which summarizes the Corporation's lease commitments, reflects only the minimum lease payments for The Pierre for the remainder of the initial lease term. There is no third party debt associated with the Corporation's leasehold interest relating to either The Pierre or the Four Seasons Hotel Vancouver, other than related rent obligations.

### *Four Seasons Hotel Berlin*

The Corporation has a 23% investment in the company that owns and has constructed the multi-use project in Berlin that includes the hotel, as well as commercial, residential and retail space. The Corporation accounts for its investment in this multi-use project by the cost method because the ownership structure does not give it significant influence over the project. In addition, in 1991 Four Seasons entered into an operating lease to acquire the management of the Four Seasons Hotel Berlin. Once the hotel is operating in accordance with the Corporation's detailed technical specification, the lease for the hotel will commence ("handover") and the Corporation will begin accounting for its investment in the leasehold interest in the hotel on a consolidated basis. The Corporation will be responsible for funding the majority of the Four Seasons Hotel Berlin's operating and capital requirements, including the minimum rent, to the extent not covered by hotel operating revenues.

The Four Seasons Hotel Berlin opened in September 1996; however, the effective date of the handover is subject to a dispute arising from certain construction deficiencies alleged by the Corporation. Until the dispute is resolved, the Corporation will accrue for the losses, if any, of the hotel from January 1, 1998 even though the lease may not be effective until a later date.

Four Seasons has entered into an agreement with one of its equity partners in the project pursuant to which the partner will be responsible for funding up to one-half of any annual operating loss incurred in the first 10 years of the Four Seasons Hotel Berlin's operation, up to a maximum of DM2 million (approximately \$1.6 million) per year and DM15 million (approximately \$12 million) in the aggregate. A portion of Four Seasons' interest in the net proceeds, if any, from the sale of the multi-use project, after repayment of debt, has been pledged to that partner to secure repayment to that partner of any amounts it has funded in connection with the hotel's operations. This obligation is recourse only to the Corporation's interest in the net sale proceeds.

Four Seasons' share of the hotel's budgeted operating loss (after funding by its partner and payment of management fees) is currently estimated to be approximately DM5 million (approximately \$4 million) in 1998. The Corporation expects its fee revenues from this hotel to offset approximately one-half of the operating losses that are accrued in 1998. The long-term outlook for the hotel is expected to be favourable once construction is completed in the vicinity of the hotel and the Berlin hotel market stabilizes to higher occupancy levels after the expected relocation of federal government and corporate offices to Berlin.

#### *Four Seasons Hotel London*

The Corporation has an aggregate of £27.5 million (approximately \$65 million) loans receivable outstanding in connection with the Four Seasons Hotel London. This amount represents two loans which were advanced to corporations indirectly controlled by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud ("Kingdom") in two separate transactions through which Kingdom acquired an aggregate 87.5% interest in the hotel.

The first loan, which has a balance of £11.2 million (approximately \$26 million), represents part of the consideration received by the Corporation when it sold its 50% interest in the hotel to Kingdom in 1995. The loan is a cash flow bond secured by the transferred interest in the hotel and bears interest at 10%.

The second loan, which has an outstanding balance of £16.3 million (approximately \$39 million), was advanced when the other 50% owner of the hotel sold its interest to Kingdom and the Corporation in the first quarter of 1998. This loan bears interest at 10% per annum payable out of hotel cash flow, and is secured by the transferred interest in the hotel. Concurrent with this transaction, the Corporation's management arrangements for the hotel were reorganized and improved.

### *Minority Hotel Ownership Interests*

As at December 31, 1997, Four Seasons had minority investments in three of the hotels and resorts under management and had made an investment in four of the hotels and resorts under construction or development. Four Seasons accounts for its minority investments on a cost basis. The book value of Four Seasons' minority hotel ownership interests was \$46.5 million as at December 31, 1997 (\$41.0 million as at December 31, 1996). These investments represent the Corporation's share of the Four Seasons hotels and resorts in Chicago (7.7%), Aviara (7.3%), Seattle (3.4%), Punta Mita, Mexico (30.8%), Nile Plaza, Cairo (9%), Amman, Jordan (5%) and Scottsdale. The equity interest in Scottsdale is yet to be determined as the Corporation is currently making arrangements with its equity partners.

Based upon the current and budgeted operating cash flow of these properties (adjusted for expected capital spending requirements) and recent comparable luxury hotel sales, the Corporation currently estimates that the net recoverable value for its minority investments at least approximates the book values of these investments (see note 5 to the consolidated financial statements).

None of these minority investments is material to the Corporation and each of these investments individually represents 5% or less of the total assets of the Corporation. The Corporation has no recourse debt obligations relating to these interests, other than those disclosed in note 13(c) to the consolidated financial statements. For the year ended December 31, 1997, the Corporation earned \$8.0 million (\$11.1 million in 1996) of fee revenues and received distributions of \$363,000 (\$240,000 in 1996) from these minority hotel investments.

A 15% interest in the Four Seasons Resort Nevis and a 15% interest in the Four Seasons Hotel Washington were disposed of by the Corporation during 1996 and 1997, respectively. The Corporation exchanged its 15% partnership interest in the Four Seasons Hotel Washington and an adjoining office building in return for an extended management contract. At the same time, the owner commenced a program to convert the office building into additional hotel rooms to be managed by Four Seasons, which upon their completion will provide additional fee revenues to the Corporation.

During the first quarter of 1998, a 12.5% interest in the Four Seasons Hotel London was acquired by the Corporation. In addition the Corporation has agreed to dispose of its 7.7% interest in the Four Seasons Hotel Chicago in exchange for the elimination of certain funding obligations.

The following table sets forth the combined summarized financial information relating to the Corporation's proportionate share of these investments for the 1997 and 1996 fiscal years. This table excludes: (i) Four Seasons' 15% investment in the Four Seasons Resort Nevis which was disposed of in the fourth quarter of 1996 and Four Seasons' 15% interest in the Four Seasons Hotel Washington which was disposed of effective January 1, 1997 (as at and for the year ended December 31, 1996, the Corporation's proportionate share of the revenues of these two properties was \$13.4 million, of earnings before other operating items was \$3.1 million, of total assets was \$6.7 million, and of deficit was \$0.9 million), (ii) the book value of the Corporation's hotel ownership interests in the Four Seasons hotels and resorts in Punta Mita, Mexico, Nile Plaza, Cairo, Amman, Jordan and Scottsdale, Arizona which are still either under construction or development, and (iii) for 1996 the Corporation's interest in the Four Seasons Resort Aviara as the resort did not begin operations until August 1997. The net loss of \$1.3 million in 1997 is primarily attributable to the start-up losses from this interest in the Aviara resort.

(continued)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Minority Hotel Ownership Interests (continued)*

## Statements of Operations

<i>(In thousands of dollars)</i>	1997	1996
Hotel revenues	\$ 9,739	\$ 6,946
Direct hotel expenses	(7,729)	(4,896)
Operating earnings	2,010	2,050
Rent to third parties	(2,083)	(1,745)
Earnings (loss) before other operating items	(73)	305
Depreciation	(816)	(149)
Interest on third party debt	(420)	(183)
Net loss <sup>(1)</sup>	\$ (1,309)	\$ (27)

## Balance Sheets

<i>(In thousands of dollars)</i>	1997	1996
Current assets	\$ 2,057	\$ 1,443
Long-term assets	16,338	2,163
Total assets	\$ 18,395	\$ 3,606
Current liabilities	\$ 2,109	\$ 3,458
Long-term liabilities	9,601	2,361
Equity (deficit)	6,685	(2,213)
Total liabilities and equity (deficit)	\$ 18,395	\$ 3,606

(1) No provision has been made for income taxes as the liability for such taxes is that of the partners rather than the partnerships.

*Vacation Ownership Interest*

The book value of Four Seasons' minority ownership interest in vacation ownership was \$4.9 million as at December 31, 1997 (\$4.6 million at December 31, 1996). This amount represented the Corporation's 7.3% interest in the vacation ownership project located at Aviara in Carlsbad, California.

Sales of vacation ownership units at the vacation ownership project in Aviara began in August 1997. Construction of units at the Punta Mita, Mexico, project is scheduled to begin in 1998, with sales expected to begin in December 1998. In connection with development of the resort and vacation ownership project in Scottsdale, the Corporation is considering an investment of approximately US\$25 million in 1998.

## RESULTS OF OPERATIONS

*Year ended December 31, 1997 compared to year ended December 31, 1996*

## Hotel Management Operations

*Fee Revenues*

Fee revenues increased \$11.3 million or 11.9% to \$106.0 million in 1997, compared to \$94.7 million in 1996. The increase is attributable to increased incentive fees of \$5.7 million, an increase in fees from hotels recently opened and from new management contracts of \$4.8 million, fees from vacation ownership of \$2.0 million, an increase in fees from hotels under development of \$1.3 million, and an increase in other fees of \$1.9 million. The growth in fee revenues was offset

primarily by the termination during 1996 of management contracts for Regent hotels in Melbourne, Auckland, and Fiji, and the Inn on the Park in Toronto (which together accounted for a reduction of \$4.4 million of fee revenues). Incentive fees contributed 23.2% of the total fee revenues in 1997, compared to 20.2% in 1996.

Total revenues of all managed hotels increased to \$2.1 billion in 1997, compared to \$1.9 billion in 1996. Growth in revenue was driven by continued strong performance in both the North American and European markets, offset by a weak performance in the Asian market in the last half of 1997. The weakness in a number of the Asian markets caused a decline in REVPAR of 8.2% and a decline in gross operating profit of 9.4% in hotels under management in that region in 1997. Compared to 1996, this resulted in a reduction of approximately \$1 million in fee revenues from the Asian hotels in 1997. The Corporation's Core Hotels showed an average increase of approximately 5% in REVPAR in 1997, compared to 1996, primarily as a result of increases in room rates. The REVPAR increase realized in 1997, combined with enhanced operating efficiencies, resulted in an increase of approximately 10% in the gross operating profit of Core Hotels in 1997, compared to 1996.

The Corporation expects REVPAR in Core Hotels to increase approximately 7% in North America and Europe in 1998, compared to 1997, primarily due to an increase in room rates, offset by an expected reduction of approximately 15% to 20% in Asia. Overall, REVPAR is expected to increase marginally in 1998 by approximately 2%, compared to 1997, in Core Hotels. Gross operating profit of the same hotels is expected to increase by over 10% in North America and 5% in Europe, and decrease by approximately 20% in Asia, in 1998, compared to 1997.

The Corporation expects that fee revenues should increase by approximately 15% in 1998 over 1997 primarily as a result of (i) increased fees from the improved performance of hotels in North America and Europe, (ii) the fees to be earned from the new or relaunched hotels in Bali at Sayan, Goa, India, Lisbon and the Maldives, (iii) a full year of fee revenues from the resort and vacation ownership property in Aviara and the management contract in Atlanta, and (iv) the incremental fees to be earned from enhanced management contracts in London and Chicago. These increased revenues will be offset by the expected reduction in fees from the Asian hotels.

#### *General and Administrative Expenses*

General and administrative expenses increased by \$3.3 million or 8.4% in 1997, compared to 1996, due to increasing staff levels, certain regional moves necessary to allow for the Corporation's expansion into Europe, the Middle East and India, and as a result of the incentives earned by management in respect of the financial performance of the Corporation in 1997. In 1998, the increase in general and administrative expenses is expected to be approximately 8% as the increase in staffing and regional moves are finalized.

#### *Hotel Management Earnings*

As a result of the changes in fee revenues and expenses discussed above, the Corporation's hotel management earnings increased by \$8.0 million or 14.3% to \$63.7 million in 1997. Hotel management earnings represented 80.9% of the Corporation's earnings before other operating items in 1997, compared with 86.5% in 1996. The decrease was due to the consolidation of the Corporation's 100% leasehold interests in The Pierre in New York and the Four Seasons Hotel Vancouver in 1997. It is estimated that this percentage will increase in 1998 to approximately 90%, due to an expected increase in hotel management earnings combined with an expected reduction in hotel ownership earnings due to the planned disposition of the Corporation's 25% interest in The Ritz-Carlton Hotel Chicago and the inclusion of the start-up losses from the Four Seasons Hotel Berlin (see Hotel Ownership Operations on page 36). As a result of the above-mentioned factors, hotel management fee revenues and hotel management earnings in 1998 are expected to exceed 1997 levels by approximately 15%. In 1998, the hotel management profit margin is expected to exceed the 1997 margin of 60.1%.

### Hotel Ownership Operations

Hotel ownership earnings in 1997 increased 73.6% to \$15.1 million, compared to \$8.7 million in 1996. The increase in hotel ownership earnings was attributable to the inclusion of the 100% leasehold interests in The Pierre in New York and the Four Seasons Hotel Vancouver with effect from December 30, 1996, and the strong operating conditions in the New York, Chicago and Vancouver markets. This improved operating performance was offset by a decrease in distributions from the Corporation's 25% interest in The Regent Hong Kong, caused by weakness in the operations of the hotel due to a significant decline in demand in that market during the last six months of 1997. This reduction in demand is a result of the combined effects of local conditions and the economic downturn experienced in a number of Asian markets. As a result, the distributable earnings from the hotel decreased from \$9.2 million in 1996 to \$6.0 million in 1997.

Hotel ownership earnings are expected to decline by approximately 55% in 1998, compared to 1997, primarily as a result of (i) the expected sale of the Corporation's 25% ownership interest in The Ritz-Carlton Hotel Chicago which will result in the Corporation ceasing to proportionately consolidate this interest, (ii) anticipated losses from the Corporation's investment in the Four Seasons Hotel Berlin from January 1, 1998 (see "Four Seasons Hotel Berlin" on page 31), and (iii) an anticipated reduction in distributions from the Corporation's interest in The Regent Hong Kong caused by continuing weakness in that market. The decline in hotel ownership earnings from these three hotels will be partially offset by expected improvements in earnings generated by The Pierre in New York and the Four Seasons Hotel Vancouver.

### Other Items

#### *Depreciation and Amortization*

Depreciation and amortization expense in 1997 was \$15.8 million, compared to \$14.0 million in 1996. This increase of 12.6% is attributable primarily to the consolidation of The Pierre in New York and the Four Seasons Hotel Vancouver in 1997. Depreciation and amortization is expected to decline in 1998, compared to 1997, by approximately 10% primarily due to the expected disposition of the Corporation's 25% interest in The Ritz-Carlton Hotel Chicago in 1998, which will result in the Corporation ceasing to consolidate its share of the depreciation and amortization expense of this hotel.

#### *Net Interest Expense*

Net interest expense in 1997 declined 52.4% to \$8.9 million from \$18.8 million in 1996. This decrease is attributable to: (i) lower debt levels, (ii) lower interest rates (Four Seasons' weighted average cost of debt in 1997 was 8.4% compared to 8.6% in 1996) as a result of the replacement of the 9-1/8% Notes in mid-1997 with 6% debentures (the weighted average cost of debt on a full-year basis after the replacement was approximately 7%), and (iii) increased interest income primarily from cash reserves, together with the interest income from the loan made in 1997 to the owner of the Hôtel George V in Paris.

Net interest expense is expected to decline by approximately 45% in 1998 compared to 1997, primarily as a result of reduced interest rates and an increase in interest income.

#### *Loss on Repurchase of Debt*

During 1997, the Corporation repurchased US\$101.5 million of its 9-1/8% Notes which resulted in an accounting loss of \$12.0 million (see note 10(b) to the consolidated financial statements).

### *Income Tax Expense*

The Corporation's effective tax rate in 1997 was 3.8%, compared with a 6.2% effective tax rate in 1996. The low effective tax rate is due primarily to the utilization of the benefits of the unrecorded tax losses created by the write-down in hotel investment values in 1993 and 1995. The utilization of these unrecorded tax losses is expected to keep the effective tax rate below 10% for the next two years.

### *Net Earnings and Earnings per Share*

Net earnings and earnings per share in 1997 were \$40.8 million and \$1.24 per share, respectively. Excluding the \$12.0 million loss on repurchase of debt, normalized net earnings were \$52.8 million and normalized earnings per share were \$1.61 in 1997. Net earnings in 1996 were \$29.9 million and net earnings per share were \$1.04. The 76.8% increase in normalized net earnings and 54.8% increase in normalized earnings per share resulted from strong growth in hotel management operations, and an increase in hotel ownership earnings primarily due to the consolidation of The Pierre in New York and the Four Seasons Hotel Vancouver in 1997, offsetting lower management and ownership earnings from the Corporation's Asian hotels, and lower net interest costs resulting from declining debt levels, lower interest rates and increased interest income in 1997.

*Year ended December 31, 1996 compared to year ended December 31, 1995*

### **Hotel Management Operations**

#### *Fee Revenues*

Fee revenues increased \$6.3 million or 7.1% to \$94.7 million in 1996, compared to \$88.5 million in 1995. The increase is attributable to increased incentive fees of \$5.0 million, a \$2.4 million net gain realized on the termination of The Regent Fiji management contract and an increase in other fees of \$4.6 million. The growth in fee revenues was primarily offset by the termination of management contracts for Regent hotels in Melbourne, Auckland, London and Fiji, the Inn on the Park in Toronto and the Clift in San Francisco (which together accounted for a reduction of \$4.2 million of fee revenues). Adjusting for the effect of these terminated management contracts and the effect of newly opened hotels and development projects, fee revenues would have increased \$9.6 million or 12.4% in 1996, compared to 1995. Incentive fees contributed 20.2% of the total fee revenues in 1996, compared to 16.8% in 1995.

Total revenues of all managed hotels increased to \$1.9 billion in 1996, compared to \$1.8 billion in 1995. Growth in revenue was driven by continued strong performance in all major geographic markets. Fully opened hotels under management by the Corporation during all of both 1995 and 1996 showed an average increase of approximately 12% in REVPAR compared to 1995, primarily as a result of an increase in room rates. The strong REVPAR increases realized in 1996, combined with enhanced operating efficiencies, resulted in increases of approximately 21% in the gross operating profit of fully opened hotels in 1996, compared to 1995.

#### *General and Administrative Expenses*

General and administrative expenses increased \$2.3 million or 6.4% in 1996, compared to 1995, partly as a result of the incentives earned by management in respect of the financial performance of the Corporation in 1996. No profit-based incentives were earned in 1995.

(continued)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Hotel Management Earnings*

As a result of the changes in fee revenues and expenses discussed above, the Corporation's hotel management earnings increased by \$3.9 million or 7.6% to \$55.7 million in 1996. Hotel management earnings represented 86.5% of the Corporation's earnings before other operating items in 1996, compared with 77.6% in 1995.

*Hotel Ownership Operations*

Hotel ownership earnings in 1996 declined 42.0% to \$8.7 million, compared to \$14.9 million in 1995. This decline was due to the sale of the Corporation's 50% ownership interest in the Four Seasons Hotel London in December 1995, which previously had been proportionately consolidated in hotel ownership operations. The Corporation consolidated \$8.7 million of operating earnings from the London hotel in 1995.

A major portion of hotel ownership operations in 1996 was dividend distributions from the Corporation's 25% ownership interest in The Regent Hong Kong, which is accounted for on a cost basis. The hotel's REVPAR increased 14.8% in 1996, due to the combination of strong occupancy improvement and increased room rates. This strong REVPAR increase resulted in a 26.5% increase in the gross operating profit for the hotel in 1996. As a result, the distributable earnings for The Regent Hong Kong were \$9.2 million in 1996, representing a 52% increase over 1995.

*Other Items**Depreciation and Amortization*

Depreciation and amortization expense in 1996 was \$14.0 million, compared to \$16.9 million in 1995. This reduction of 17.1% is attributable primarily to the sale of the Four Seasons Hotel London at the end of 1995.

*Net Interest Expense*

Net interest expense in 1996 declined 26.9% to \$18.8 million from \$25.7 million in 1995. This decline is attributable to: (i) lower debt levels, (ii) lower interest rates (Four Seasons' weighted average cost of debt in 1996 was 8.6% compared to 8.9% in 1995), and (iii) \$2.8 million of interest income earned in 1996 on the £12.6 million of 10% secured cash flow bonds received in 1995 as consideration on the sale of the Four Seasons Hotel London.

*Income Tax Expense*

The Corporation's effective tax rate in 1996 was 6.2%, compared with a 16.0% effective tax rate in 1995 (excluding the provision for loss of \$95 million). The low effective tax rate is due primarily to the utilization of the benefits of the unrecorded tax losses created by the write-down in hotel investment values in 1993 and 1995 and a reduction of income tax expense in the United Kingdom in 1996 as a result of the sale of the ownership interest in the Four Seasons Hotel London in December 1995.

*Net Earnings and Earnings per Share*

Net earnings and earnings per share in 1996 were \$29.9 million and \$1.04, respectively. The net loss in 1995 was \$74.6 million and the net loss per share was \$2.62. Excluding the \$95 million provision, normalized net earnings would have been \$20.4 million and normalized earnings per share would have been \$0.72 in 1995. The 46.2% increase in normalized net earnings and 44.8% increase in normalized earnings per share represented strong growth in hotel management operations and lower interest costs resulting from declining debt levels and lower interest rates.

## LIQUIDITY

Four Seasons generally funds its capital and operating requirements with cash flow from operations. The Corporation utilizes cash from operations, debt and equity financing to (i) make capital investments to obtain long-term management agreements, (ii) fund its share of hotel capital improvements and operating requirements where it holds an equity interest (where the operating cash flow from these hotels is insufficient to fund these requirements) and (iii) make principal and interest payments on corporate debt.

In 1998, based upon the current business plan, the Corporation expects total capital spending of approximately \$80 million, including dividends and those items noted on pages 40 and 41, to be funded out of cash on hand and cash generated from operations. The Corporation is also considering a US\$25 million investment in a resort and vacation ownership project to be developed in Scottsdale, Arizona, which would be funded primarily from the Corporation's bank facilities.

### Equity Financing and Debt Refinancing

On February 12, 1997, FSHI issued 4,370,000 Limited Voting Shares ("LVS") for gross proceeds of \$122.4 million. The net proceeds from the sale of the LVS, after deducting offering expenses and underwriters' commission, were \$113.7 million. The Corporation used the net proceeds of the offering to repay all its existing bank indebtedness, to fund a loan in connection with acquiring the long-term management agreement for the Hôtel George V in Paris, for investment in new hotel management agreements, and for general working capital purposes. Coincident with the equity offering, the Corporation listed its shares on the New York Stock Exchange. These steps allowed the Corporation to increase its shareholder value by diversifying its shareholder base, increasing liquidity and improving the financing alternatives available to the Corporation. As a result of the equity offering and improved operating performance the Corporation improved its debt ratings.

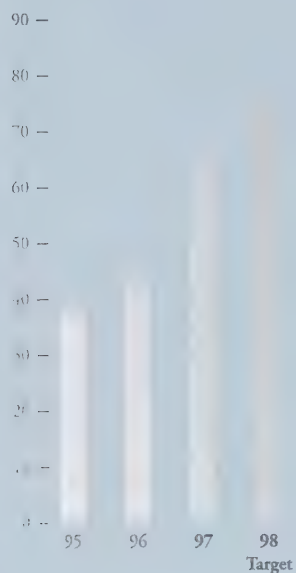
During 1997, the Corporation repurchased US\$101.5 million of its 9-1/8% Notes for US\$108.2 million. The repurchase was funded by proceeds from cash reserves and the issue of \$100 million unsecured five-year debentures, which bear interest at 6% per annum. The repurchase resulted in an accounting loss of \$12.0 million. As a result of the debt refinancing, the Corporation was able to significantly reduce its overall cost of capital and provide greater flexibility for future financings.

Total debt, net of cash, declined from a peak level of approximately \$373 million in June 1994 to \$115 million as at December 31, 1997. This reduction in debt was achieved through the application of asset sale proceeds, equity issuance proceeds and cash generated by operations. As at December 31, 1997, approximately 80% (63% at December 31, 1996 and 73% at December 31, 1995) of Four Seasons' long-term debt was at fixed interest rates.

As at December 31, 1997, the Corporation had US\$100 million available in undrawn committed bank facilities. The Corporation believes that the bank operating credit facility, which matures in July 2002, when combined with internally generated cash flow, should allow it to finance all of its normal operating needs and commitments to new investments to achieve its growth objectives.

(continued)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Cash Flow  
(\$ millions)

## Operating Cash Flow

Cash flow from operations was \$64.8 million in 1997, compared to \$43.7 million in 1996. The working capital generated from hotel management operations was \$7.4 million higher in 1997 than in 1996, reflecting the improvement in hotel management earnings discussed above. The working capital generated from hotel ownership operations was \$10.7 million higher in 1997 than in 1996, primarily as a result of improved hotel management and hotel ownership earnings in 1997. Net interest paid decreased by \$10 million in 1997, compared to 1996, due to lower debt levels and interest rates and an increase in interest income in 1997. These increases were offset by a change in non-cash working capital of \$7.4 million in 1997, compared to 1996.

For the year ended December 31, 1996, cash flow from operations was \$43.7 million, compared to \$38.7 million for 1995. The working capital generated from hotel management operations was \$4.5 million higher in 1996 than in 1995. This improvement was more than offset by a reduction in working capital generated from hotel ownership operations of \$8.3 million in 1996, due to the sale of the Corporation's 50% interest in the Four Seasons Hotel London in 1995. Net interest paid decreased by \$4.8 million in 1996, compared to 1995, due to lower debt levels and interest rates.

Operating cash flow is expected to increase to more than \$75 million in 1998. The Corporation expects that approximately 80% of cash generated from operations will be expended to generate new revenue streams.

## Fixed Asset Additions and Improvements

Owners of hotels managed by Four Seasons are contractually responsible for funding the capital requirements of the hotels, including major guest room and common area renovations, and for maintaining capital reserves to fund ongoing annual maintenance capital expenditures required by the management agreements. The owners annually spend an average of 4% of gross revenues of the hotels on capital expenditures to maintain properties at the Four Seasons standard (other than in newly constructed or recently renovated properties where the annual amounts generally range from 1% to 2% in the years of operation following opening and major refurbishment). Additional funds are made available for special capital projects as required to maintain the luxury standards specified in the Four Seasons' hotel management agreements. Capital expenditures are funded primarily by working capital generated from hotel operations and through advances from the hotel owners. Four Seasons' share of capital expenditures were \$10.5 million, \$1.3 million and \$2.4 million in 1997, 1996 and 1995, respectively, for its consolidated hotels and corporate offices. The increase in capital expenditures in 1997, compared to 1996 related primarily to the consolidation of The Pierre in New York and the Four Seasons Hotel Vancouver in 1997. In addition, these hotels undertook major capital programs. Four Seasons' share of capital expenditures was immaterial for those hotels in which Four Seasons has a minority equity interest or pursuant to management contract obligations.

For 1998, Four Seasons has budgeted capital expenditures of approximately \$8 million in its consolidated hotels and corporate offices.

## Investments in and Advances to Managed and Owned Hotels

The Corporation received \$13 million net cash proceeds in January 1997 upon the closing of the sale of the Four Seasons Hotel Toronto.

During 1997, the Corporation invested \$4.7 million in a resort under development in Punta Mita, Mexico, in which it has a 30.8% interest (this interest is expected to be reduced upon completion of the Corporation's discussions with its equity partner), and invested \$1.7 million in the related golf club in which it has a 12.3% interest (this interest is also expected to be reduced upon completion of the Corporation's discussions with its equity partner). For hotels in which the Corporation has less than a 20% interest, it invested \$1.7 million in 1997 (\$14.1 million in 1996 and \$5.8 million in 1995) to fund operating and capital requirements, primarily in recently opened hotels or hotels under construction or development. Of the \$14.1 million advanced in 1996, approximately \$6.9 million related to a hotel then under development in Cairo, approximately \$3.2 million related to a resort and a vacation ownership project then under development in Aviara and approximately \$2.7 million related to a project under development in Scottsdale. Of the \$5.8 million advanced in 1995, approximately \$3.2 million was advanced to the Four Seasons Resort Nevis, primarily representing the Corporation's 15% share of a US\$15 million repayment of property debt. The Corporation disposed of its interest in this resort in 1996, but continues to manage the resort under a long-term management agreement.

During 1996, operating cash flow of approximately \$6.3 million was generated by certain hotels which have since been sold, which represented an increase of approximately \$400,000 over 1995. These funds, together with amounts advanced by Four Seasons of \$1.4 million in 1996 (\$8.6 million in 1995), were used to fund approximately \$5.9 million (\$5.5 million in 1995) of capital expenditures and \$1.8 million (\$8.9 million in 1995) of principal and interest on property specific debt. The 1996 total funding by the Corporation of \$1.4 million represents a reduction of \$7.2 million from 1995, as a result of improved operating cash flows from the hotels and reduced debt service requirements.

Additional investments in hotels in which the Corporation has, or will have, less than a 20% equity interest are expected to be approximately \$15 million in 1998.

#### Long-term Receivables

Of the \$38.5 million of long-term receivables advanced in 1997, approximately \$37.9 million (French francs 161.6 million) was advanced to an affiliate of Kingdom in connection with the acquisition of the long-term management agreement for the Hôtel George V in Paris. Of the \$9.7 million of long-term receivables advanced in 1996, approximately \$8.7 million related to the repayment of a note payable for which Four Seasons was contingently liable. As a result of the termination of the management of The Regent Auckland in 1996, Four Seasons was repaid approximately \$4.6 million of advances and deferred management fees. In addition, upon the sale of the Four Seasons Resort Nevis in November 1996, a loan of US\$3 million plus accrued interest was repaid to the Corporation. During 1995, the Corporation's net investment in long-term receivables increased by \$32.9 million. The increase in 1995 included the secured cash flow bond of \$26.6 million (£12.6 million) received on the sale of the Corporation's 50% interest in the Four Seasons Hotel London. Four Seasons also advanced \$3.8 million to The Regent Jakarta in 1995. This advance completed the Corporation's commitment to lend US\$5 million to this hotel, which partially opened during 1995. This loan is convertible into a 5% equity interest in the hotel, subject to regulatory approval. In addition, the Corporation advanced in 1997 a total of US\$5.9 million of a US\$7.5 million commitment, as a loan to the owner of the Four Seasons Hotel Atlanta, in connection with the long-term management agreement acquired in 1997.

In early 1998, the Corporation advanced £16.3 million (approximately \$39 million) in connection with the Four Seasons Hotel London (see discussion under "Four Seasons Hotel London" on page 32). In addition, based upon current estimates, the Corporation is expected to make advances of approximately \$7 million in 1998 in connection with other hotel management contracts.

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## OPERATING RISKS

The anticipated 1998 hotel management operating results, hotel ownership results, depreciation and amortization, net interest expense, income tax expense, operating cash flow, fixed asset additions and improvements, investments in and advances to managed and owned hotels, long-term receivables and total capital spending, amongst others, all more thoroughly described above, are subject to many risks and uncertainties including those discussed below.

Significant risks associated with Four Seasons' operations are summarized below:

*Lodging Industry Conditions*

Four Seasons focuses exclusively on the luxury segment of the hotel industry, which is subject to operating risks inherent in the lodging industry. These risks include, among other things, changes in general and local economic conditions, periodic overbuilding in the industry or a specific market, varying levels of demand for rooms and related services (including food and beverage and function space), competition from other hotels, changes in travel patterns, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in wages, prices, construction and maintenance costs that may result from inflation, government regulations and changes in interest rates, the availability of financing for operating or capital requirements, natural disasters, extreme weather conditions, labour disputes, political instability and terrorism and their effects on travel. The industry also is subject to seasonal fluctuations, resulting in variances in the Corporation's quarterly fee revenues and operating results. Four Seasons operates luxury hotels and resorts in many areas of the world and its revenues are dependent upon the revenues of individual hotels and resorts derived from all sources. The above-listed conditions can from time to time have a major adverse impact upon individual hotels or particular regions. A prolonged period of economic recession would materially and adversely affect the Corporation's results of operations.

*Competition*

The luxury segment of the hotel industry is subject to intense competition, both for guests and for the acquisition of new management contracts. Competition for guests arises primarily from luxury hotel chains, individual luxury hotels and resorts and a limited number of luxury properties operated by larger hotel chains. That competition is based on brand name recognition, location, room rates and quality of service and accommodations. Demographic, geographic and other changes in specific market conditions could materially and adversely affect the convenience or desirability of the locales in which hotels and resorts that are managed by Four Seasons are located.

Four Seasons competes for hotel management opportunities with other hotel operators. Four Seasons believes that its ability to obtain management agreements is based primarily on the value and quality of its management services, brand name recognition and the economic advantages to the hotel owner of retaining Four Seasons' management services and using its brand names. Four Seasons also believes that an owner's assessment of the economic advantages of retaining Four Seasons' management services and using its brand names is, in part, a function of the success of the hotels currently under management by Four Seasons. Competitive factors also include relationships with hotel owners and investors, marketing support, reservation system capacity and the ability to make investments that may be necessary to obtain management contracts. Four Seasons' failure to compete successfully for expansion opportunities or to attract and maintain relationships with investors who currently own hotels could materially and adversely affect its results of operations.

*Dependence on Management Agreements*

Management agreements expire or are acquired, terminated or renegotiated in the ordinary course. Failure to obtain new management agreements or maintain existing management agreements could materially and adversely affect the Corporation's results of operations. Four Seasons manages hotels for various hotel owners subject to the terms of each hotel's management agreement. Those agreements generally can be terminated by the non-defaulting party upon default in payment or unremedied failure to comply with the terms of the agreement. Most of the management agreements are subject to performance tests that, if not met, could allow the agreement to be terminated by the owner prior to the expiration of its term. The failure to maintain the standards specified in the agreement or to meet the other terms and

conditions of an agreement could result in the loss or cancellation of a management agreement. Typically, but not in all cases, Four Seasons has certain rights to cure a default to avoid termination. Some management agreements also can be terminated if the hotel is sold by the owner to a new owner that does not want to retain the existing agreement. In certain cases these contracts provide for a termination pay-out upon cancellation of the agreement.

In the event of bankruptcy of a hotel and foreclosure, a management agreement may be terminated in most jurisdictions, unless, to the extent permitted by local bankruptcy laws, the lender has executed a non-disturbance agreement. Four Seasons generally has non-disturbance agreements with the lenders to owners of hotels that it manages. Where no non-disturbance agreement is in place, the risk of loss of a management agreement increases where debt that cannot be serviced adequately is incurred by the hotel owner at the hotel level. In some jurisdictions, particularly the United States, management agreements have been construed by courts to create an agency relationship that is terminable by the owner, notwithstanding any provision of the agreement that purports to make the agreement not terminable. In such circumstances, the management company would generally have an unsecured claim for breach of contract against the owner of the hotel or its trustee in bankruptcy.

Management agreements for hotels and resorts managed by the Corporation currently have remaining terms (including extension periods at the Corporation's election) averaging approximately 57 years for Four Seasons hotels and resorts and approximately 17 years for Regent hotels and resorts. Only three management agreements have remaining terms of less than 10 years. Two of these relate to The Regent Hotel Taipei and The Regent Hotel Bangkok, which expire in 2000 and 2005, respectively. Although the management contract for The Regent Hotel Taipei expires in 2000, the annual base management fee from the hotel of US\$1.9 million ceases in 1998. For the years ended December 31, 1997 and 1996, these two hotels contributed, in aggregate, \$4.6 million and \$4.8 million, respectively, in fee revenue.

The third relates to The Regent Hong Kong, where the initial term of both the management agreement and the operating lease expire in 2000. There is an option to extend the lease agreement for an additional 10 years. The Corporation owns a 25% interest in the corporation that owns the operating lease for the hotel and has entered into the management agreement. However, the owner of the 75% interest in the lessee corporation is a company controlled by the landlord. The Corporation does not control the lease extension rights; however, it intends to take whatever action may be necessary to protect its minority interest in the lessee and its interest in the management agreement. There can be no assurance as to the result of the assertion of these rights. Hotel management fees and distributions from The Regent Hong Kong, in aggregate, accounted for approximately \$11.6 million and \$15.7 million of the Corporation's consolidated revenues in 1997 and 1996, respectively.

The Corporation received notices in 1992 that the owners of two managed hotels are asserting that the Corporation's acquisition of Regent, which managed a hotel in the same city, resulted in a breach of the radius restrictions in their respective management agreements. The Corporation has been in discussions since 1992 with the owners to resolve these issues. The Corporation expects to execute letters of intent with the owners to provide for arrangements to resolve these disputes in 1998. Under these proposed arrangements, Four Seasons will continue to manage these properties and to receive fee revenues under the applicable management agreements for their remaining terms. Definitive documentation relating to such resolution has not yet been executed.

#### *Dependence on Hotel Owners*

As a result of the strategic decision of Four Seasons to focus on management, as opposed to ownership, of hotel properties, Four Seasons' growth opportunities are dependent in part on its ability to establish and maintain satisfactory relationships with existing and new hotel investors. Those growth opportunities also are dependent on access to capital by these investors. In 1997, only one owner had interests in any combination of hotels, resorts and vacation ownership properties managed by Four Seasons that represent in excess of 10% of total consolidated revenues of the Corporation. As at December 31, 1997, this owner had interests in The Ritz-Carlton Hotel Chicago and the Four Seasons hotels in Chicago and Seattle. The hotels in which this owner had interests accounted (by way of fee revenues, hotel revenues and distributions in respect of the Corporation's ownership interests) for approximately 13% of the Corporation's total

## OPERATING RISKS

consolidated revenues in 1997. A failure by Four Seasons to maintain satisfactory relationships with any owner of a significant number of hotels could have a material adverse effect on the Corporation's results of operations.

*Risk Associated with Expansion, Growth and New Construction*

An element of Four Seasons' business strategy is to increase the number of hotels and resorts under management. That expansion is dependent upon a number of factors, including the identification of appropriate management opportunities, competing successfully for the management agreements relating to those opportunities, availability of financing for new developments and timely completion of construction of new hotel and resort properties (or the refurbishment of existing properties) that are, or are to be, managed by Four Seasons.

From time to time, the hotel industry has experienced periods during which financial institutions have been reluctant to provide financing for the construction of real estate properties, including hotels. The inability to obtain financing for a project will cause cancellation of, or short-term interruption in, the progress or completion of properties under construction or development. Additionally, any construction project entails significant construction risks that could delay or result in a substantial increase in the cost of construction. The opening of newly constructed properties, in particular, is contingent upon (among other things) receipt of all required licences, permits and authorizations, including local land use permits, building and zoning permits, health and safety permits and liquor licences. Changes or concessions required by regulatory authorities also could involve significant additional costs and delay or prevent completion of construction or opening of a project. As a result of the global nature of Four Seasons' business, these regulatory matters arise in a number of jurisdictions, many of which have distinctive regulatory regimes.

*Contingent Liabilities*

Four Seasons currently has guaranteed third party debt for two hotels: US\$5 million (approximately \$7 million) with respect to principal and interest relating to the construction financing for the Four Seasons Resort Aviara and DM7 million (approximately \$6 million) relating to the construction financing for the Berlin multi-use project that includes the Four Seasons Hotel Berlin. Four Seasons has also provided an IR£3.0 million (approximately \$6 million) guarantee to fund construction cost overruns after a 10% contingency in connection with the Four Seasons Hotel Dublin. The guarantee may only be called after the opening date of the hotel. Four Seasons has provided additional guarantees in connection with the vacation ownership development at the Four Seasons Resort Aviara. One such guarantee was entered into to allow lenders to the project access to any distributions received by the Corporation in respect of its ownership interest after default in respect of debt related to the development. Other such guarantees, which are not material, have been entered into in the ordinary course in connection with the development of the project. Any amounts that the Corporation believes it is probable that it will have to pay on these guarantees have been provided for in the consolidated financial statements.

Until 1982, FSHL held a co-ownership interest in an office building in Toronto. In 1981, the co-owners obtained financing of approximately \$22 million (of which approximately \$20.6 million plus accrued interest was outstanding as at December 31, 1997) in connection with the property and FSHL provided a several guarantee with respect to the financing. FSHL sold its interest in the property to a Canadian insurance company in 1982 for consideration consisting of a cash payment and an assumption by the purchaser of FSHL's obligations under the mortgage. FSHL has been advised by the mortgagee that a default has occurred under the mortgage and the mortgagee has commenced a proceeding against Four Seasons and another guarantor. The Corporation is vigorously defending the suit and believes that, as a result of, among other things, the sale by FSHL of its interest in the property and the resulting obligations of the purchaser, any obligations of FSHL to the mortgagee should be offset by corresponding claims against the purchaser.

There is no assurance that Four Seasons will not be required to pay an amount in excess of its current expectations in respect of any of these contingent liabilities.

### *Investments and Advances*

The Corporation has made investments in, and loans to, some of the hotels and resorts that it manages to enable it to acquire the management contracts for those properties. Currently, Four Seasons holds an ownership or leasehold interest in, or has made loans to, 11 of the 41 hotels and resorts that it manages and has made, or expects to make, investments in, or loans to, eight of the 16 projects under construction or development. In addition, the Corporation has an investment in one vacation ownership property that it manages, and will make an investment in at least two others under development. The book value of those investments and advances as at December 31, 1997 was approximately \$139 million.

In addition to the risks associated with operations of a hotel discussed above (Lodging Industry Conditions and Competition), Four Seasons is subject to risks generally related to owning and leasing real estate in respect of these properties. These risks include, among others, adverse changes in general or local economic conditions, local real estate market conditions, property and income taxes, interest rates, the availability, cost and terms of financing, liability for long-term lease obligations, the potential for uninsured casualty and other losses, the impact of present or future legislation or regulation (including those relating to the environment), adverse changes in zoning laws and other regulations, civil unrest and political instability. In addition, investments in real estate are relatively illiquid and the ability of the Corporation to dispose of its ownership interests, particularly its leasehold interests, in response to changes in economic and other conditions may be limited. Any of these factors could result in material operating losses by a particular hotel or resort and possibly the loss of the Corporation's equity investment in the property or the inability to collect loans outstanding. Holding an interest in a hotel also introduces risks associated with funding of capital expenditures and the Corporation's proportionate share of any operating losses. Where working capital reserves provided by hotel operations are insufficient, debt service, major repairs, renovations, alterations or other capital expenditures generally must be funded by the owners of the hotels and resorts, including in some cases Four Seasons.

### *Government Regulation*

Four Seasons is subject to laws, ordinances and regulations relating to, among other things, environmental matters, the preparation and sale of food and beverages, accessibility for disabled persons and general building and zoning requirements in the various jurisdictions in which Four Seasons manages hotels and resorts. Owners and managers of hotels also may be subject to laws governing the relationship with hotel employees, including minimum wage requirements, overtime, working conditions and work permit requirements. Compliance with these laws can affect the revenues and profits of hotels managed by Four Seasons or could materially and otherwise adversely affect Four Seasons' operations.

Four Seasons, as the current or previous owner or operator of certain hotels, could be liable for clean-up of contamination and other corrective action under various laws, ordinances and regulations relating to environmental matters. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the condition requiring environmental response. The presence of contamination from hazardous or toxic substances, or the failure to remediate a contaminated property properly, may affect an owner's ability to sell or rent the property, to use the property for its intended purpose, or to borrow using the property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances also may be liable for the cost of removal or remediation of substances at the disposal or treatment facility regardless of whether the facility is or was owned or operated by them. In connection with the operation and ownership of various hotels, Four Seasons could be held liable for the cost of remedial action with respect to environmental matters. Four Seasons is not aware of any potential material environmental liabilities for which Four Seasons will be responsible with respect to any of the hotels in which it currently has, or previously had, an ownership interest.

Pursuant to the management agreements to which Four Seasons is a party, the owner is responsible for the costs and expenses of the employees at each hotel and for all costs, expenses and liabilities incurred in connection with the operation of the hotel, including compliance with government regulations. However, Four Seasons may be contingently liable for certain liabilities in respect of which it does not maintain insurance, including certain workers' compensation claims, environmental liabilities and, in respect of hotels in the United States, claims arising under the Americans with Disabilities Act.

(continued)

## OPERATING RISKS

Four Seasons generally obtains indemnities from the owners of the hotels that it manages in respect of these liabilities. The value of those indemnities is dependent upon the financial condition of the owners that have provided them.

*Political Risk*

Four Seasons currently manages and/or has an equity interest in hotels and resorts in 17 countries and currently has development plans to open hotels and resorts in nine additional countries. In certain of these countries, from time to time, the related assets and revenues may be exposed to political risk.

*Insurance*

All hotels and resorts managed by Four Seasons are insured against property damage, business interruption and liability at the expense of the owner of the hotel. Under these policies Four Seasons also is insured against loss of fee income in the event of a temporary business interruption at any of the hotels and resorts that it manages. In addition, Four Seasons obtains indemnities from the owners of the hotels that it manages in respect of damages caused by acts, omissions and liabilities of the employees of the hotel or of Four Seasons, other than damages resulting from certain actions of Four Seasons and certain senior management personnel. If Four Seasons were held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial conditions could be materially and adversely affected.

*Currency Exposure*

Four Seasons has entered into management agreements with respect to hotels throughout the world and reports its results in Canadian dollars; however, its relevant currency risk is in US dollars, as more than half of its revenues and assets currently are US dollar denominated or, in the case of fee revenues and dividend distributions from The Regent Hong Kong, are pegged to the US dollar. In 1997, approximately 74% of the Corporation's consolidated revenues were US dollar denominated or pegged to the US dollar, compared to 72% in 1996. Four Seasons manages this currency exposure through the use of forward foreign exchange contracts. As at December 31, 1997, Four Seasons had sold forward US\$90.7 million under 14 forward contracts maturing over a 14-month period. The Corporation earned 9% of its consolidated revenues in 1997 in 12 foreign currencies not pegged to the US dollar, compared to 22% in 13 foreign currencies in 1996; none of the revenues in these currencies individually exceeded 3% of Four Seasons' consolidated revenues in 1997 or 1996.

As a result of the recent economic crisis in parts of Asia, there has been public speculation that the Hong Kong dollar peg to the US dollar could be altered or removed, potentially resulting in a significant devaluation of the Hong Kong dollar. Various senior Chinese government officials, including Hong Kong's chief executive, Tung Chee Hwa, have on numerous recent occasions countered the public speculation by emphasizing that the peg will remain in place at its current value. The Corporation earned fees and dividends distributions of approximately HK\$65.6 million (approximately \$11.6 million) in 1997 from The Regent Hong Kong. A devaluation of the Hong Kong dollar could therefore result in a material reduction in Canadian-dollar-reported earnings by the Corporation. To counteract the impact of any devaluation in the Hong Kong dollar that may occur, the Corporation would, amongst other steps, price its hotel rooms in US dollars.

Certain currencies are subject to exchange controls which, in practice, have never resulted in a restriction of the payment of management fees to Four Seasons. In addition, certain of these currencies are not freely traded and are relatively illiquid. To date, Four Seasons has not incurred any material losses resulting from an inability to convert these foreign currencies at favourable exchange rates. Management attempts to minimize its foreign currency risk by monitoring its cash position, keeping fee receivables current, and monitoring the political and economic climate in each country. In certain hotels, the foreign currency risks are further mitigated by pricing room rates in US dollars.

*Asian Asset Exposure*

As a result of the significant currency devaluations and economic downturn in parts of Asia, the Corporation has reassessed the estimated recoverable amounts of its assets located in, or related to, Asia. These assets consist primarily of the Corporation's

investment in The Regent Hong Kong and its investments in management contracts and trademarks and trade names related to Asia. Based on these revised estimates, the Corporation believes that these assets are recoverable from future cash flows. However, these estimates are based on projections regarding future revenues of hotels located in Asia, which, in turn, are based on assumptions regarding future economic conditions in Asia. Should the underlying assumptions change, the estimated recoverable amounts could change by a material amount.

#### *Seasonality*

Four Seasons' hotels are affected by normally recurring seasonal patterns and, for most of the hotels, demand is lower in December through March than during the remainder of the year. The Corporation's hotel ownership operations are particularly affected by seasonal fluctuations, with lower revenue, operating profit and cash flow in the first and fourth quarters. Hotel management operations also are somewhat seasonal in nature, as fee revenues are affected by the seasonality of hotel revenues and operating results. Urban hotels generally experience lower revenues and operating results in the first and fourth quarters. However, this is offset, to some degree, by increased travel to resorts in those months and is expected to be offset to a greater extent as the portfolio of resort properties managed by Four Seasons increases.

#### *Year 2000 Risk*

The Corporation has established a plan to address the impact of the year 2000 on its information technology systems, including those systems at the corporate office, at the individual hotels and at individual suppliers. Management presently believes it can achieve the plan. The Audit Committee of the Board of Directors of the Corporation is monitoring progress closely.

An inventory of infrastructure, software applications and embedded technologies for all hotels and Corporate offices has been completed which identified which systems would most likely be affected by the year 2000 problem. A risk assessment of each system, either installed or provided by vendors, is currently in process to determine which issues are most critical to its operations and therefore should be addressed first. The risk assessment process is expected to be completed by mid-1998, and remedial action initiated and completed by mid-1999. Contingency plans will be developed in each case as well.

These plans are designed to ensure that all critical systems are year 2000 compliant by December 31, 1998, and all systems are compliant by December 31, 1999.

Efforts are ongoing to seek assurance from the hotels and suppliers concerning year 2000 compliance and the Corporation expects to work with its hotels and suppliers to address the year 2000 issues.

The Corporation has established a year 2000 Task Force to monitor the progress of the implementation of the year 2000 plans. The Task Force is responsible for identifying all year 2000 exposures and for developing the remedial plans to resolve those issues. The Audit Committee is responsible for monitoring the work of the Task Force.

Actions have been taken to ensure the Corporation has a proper level of trained information technology professionals and to retain key human resources through the life of the year 2000 program.

The expected cost to the Corporation of the entire year 2000 program is not expected to be material based solely on currently known matters. The costs related to purchases of new software and hardware will be capitalized. Other costs will be expensed as incurred. Management believes that the cost of the year 2000 program will not have a material adverse impact on the Corporation's financial condition.

The foregoing estimate of costs and the date that the Corporation expects to complete the year 2000 program are based on management's best estimates. Actual results may differ from those anticipated as a result of certain risks and uncertainties, including but not limited to the availability and cost of personnel trained in this area, the ability to locate and correct all relevant hardware, software and embedded technology and other similar factors. While the Corporation will oversee the effort by the hotels under its management to address the year 2000 issue, the cost associated with the remediation effort is the responsibility of the owners. In addition, the Corporation has little or no control over the remedial plans relating to the year 2000 problem of significant customers or suppliers of goods or services, including suppliers of goods or services relating to hardware, software and embedded technology. The Corporation could be adversely impacted by the failure of any significant hotel, customer or supplier to properly address the year 2000 problem.

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## CORPORATE INFORMATION

## DIVIDEND POLICY

The Board of Directors of FSHI has established a policy of paying a semi-annual dividend to holders of its shares. Since 1990 and until October 3, 1996, FSHI paid semi-annual cash dividends of \$0.055 per Limited Voting Share ("LVS") and Variable Multiple Voting Share. Since October 3, 1996, the dividend entitlement in respect of the Variable Multiple Voting Shares has been reduced to 50%, on a per share basis, of the dividend entitlement on the LVS. The payment of dividends in the future is subject to the Corporation's earnings and financial condition and such other factors as FSHI's Board of Directors may deem relevant. There are no restrictions currently that prevent FSHI from continuing to pay a semi-annual dividend of \$0.055 per LVS.

## DIRECTORS AND OFFICERS

The following table sets forth certain information regarding each of FSHI's executive officers and directors:

Name and Residence	Position with FSHI	Principal Occupation
Isadore Sharp <sup>(1)</sup> <i>Toronto, Ontario</i>	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer, Four Seasons Hotels Limited
Edmond M. Creed <sup>(1)</sup> <i>Toronto, Ontario</i>	Director	Retired executive
Frederick Eisen <i>Toronto, Ontario</i>	Director	President and Chief Executive Officer, The Eisen Corporation
H. Roger Garland <i>Toronto, Ontario</i>	Vice Chairman and Director	Vice Chairman, Four Seasons Hotels Limited
Nan-b de Gaspé Beaubien <sup>(1)</sup> <i>Montreal, Quebec</i>	Director	President, Institute for Family Enterprise and Vice Chairperson of Gasbeau Company
Charles S. Henry <sup>(1), 2, 3, 4)</sup> <i>New York, New York</i>	Director	President, Hotel Capital Advisers, Inc.
Murray B. Koffler <sup>(2)(3)</sup> <i>Toronto, Ontario</i>	Director	Partner, The Koffler Group
J. Robert S. Prichard <sup>(3)</sup> <i>Toronto, Ontario</i>	Director	President, University of Toronto
Lionel H. Schipper <sup>(1)(2)(3)</sup> <i>Toronto, Ontario</i>	Director	President, Schipper Enterprises Inc.
John L. Sharpe <i>Toronto, Ontario</i>	President, Chief Operating Officer and Director	President and Chief Operating Officer, Four Seasons Hotels Limited
Benjamin Swirsky <sup>(1)(2)(3)</sup> <i>Toronto, Ontario</i>	Director	President and Chief Executive Officer, Beswir Capital Inc.
Shuichiro Tamaki <i>Tokyo, Japan</i>	Director	Advisor, Jowa Corporation
Simon M. Turner <sup>(4)</sup> <i>Rye, New York</i>	Director	Principal, Hotel Capital Advisers, Inc.
Christopher Wallis <i>Toronto, Ontario</i>	Executive Vice President and Director	Executive Vice President, Design and Construction, Four Seasons Hotels Limited
Douglas L. Ludwig <i>Toronto, Ontario</i>	Executive Vice President, Chief Financial Officer and Treasurer	Executive Vice President, Chief Financial Officer and Treasurer, Four Seasons Hotels Limited
Wolf Hengst <i>Toronto, Ontario</i>	Executive Vice President	Executive Vice President, Operations Four Seasons Hotels Limited
Craig O. Reith <i>Toronto, Ontario</i>	Vice President Finance and Assistant Treasurer	Vice President Finance and Assistant Treasurer, Four Seasons Hotels Limited
Kathleen Taylor <i>Toronto, Ontario</i>	Executive Vice President, General Counsel and Secretary, Four Seasons Hotels Limited	Executive Vice President, Corporate Planning and Development

(1) Member of the Compensation and Organization Committee

(2) Member of the Audit Committee

(3) Member of the Corporate Governance Committee

(4) Nominee of Kingdom, which has the right pursuant to an agreement with Triples Holdings Limited and Isadore Sharp to elect two directors to the FSHI's Board of Directors

Edmond M. Creed, Murray B. Koffler and Isadore Sharp have served as directors of the Corporation and Four Seasons Hotels Inc.'s predecessor corporation since January 9, 1978. Frederick Eisen, H. Roger Garland, John L. Sharpe, Benjamin Swirsky and Christopher Wallis were elected to the Board of Directors of Four Seasons Hotels Inc.'s predecessor corporation on October 1, 1985. Lionel H. Schipper was appointed to the Board of Directors on February 18, 1988. Shuichiro Tamaki was appointed to the Board of Directors on April 18, 1991. Charles S. Henry was appointed to the Board of Directors on November 11, 1994. J. Robert S. Prichard was appointed to the Board of Directors on March 6, 1996. Simon M. Turner was appointed to the Board of Directors on January 2, 1997. Nan-b de Gaspé Beaubien was elected to the Board of Directors on May 23, 1997.

All of the Directors will hold office until the next annual meeting of shareholders, or until their successors are elected or appointed. All of the officers and directors of Four Seasons Hotels Inc. have held their principal occupations for more than five years with the exception of: H. Roger Garland who was Executive Vice President prior to April 1995; Charles Henry who was Director, Real Estate Finance, with CS First Boston prior to July 1994; John Sharpe who was Executive Vice President prior to April 1995; Benjamin Swirsky who was President and Chief Executive Officer of Slater Steel, Inc. prior to February 1998 and Vice Chairman of Bramalea Limited prior to April 1993; Shuichiro Tamaki who was Advisor of the Industrial Bank of Japan prior to August 1994; Simon Turner who was a Director of the Investment Banking department of Salomon Brothers Inc. prior to May 1996; Christopher Wallis who was Senior Vice President, Design and Construction prior to April 1995; Douglas Ludwig who was Senior Vice President, Chief Financial Officer and Treasurer prior to January 1997; Wolf Hengst was appointed President of Regent International Hotels Limited prior to March 1998; Craig O. Reith who was Director, Corporate Finance and Assistant Treasurer prior to December 1993; and Kathleen Taylor who was Senior Vice President, General Counsel and Secretary prior to January 1997 and Vice President and General Counsel prior to December 1993.

The directors and senior officers of Four Seasons Hotels Inc., as a group, owned beneficially, directly or indirectly, or exercised control or direction over, the following number of LVS and Variable Multiple Voting Shares:

Description of Class	No. of Shares	Percentage of Class
Limited Voting Shares	820,608	2.8%
Variable Multiple Voting Shares	4,171,924	100%

## ADDITIONAL INFORMATION

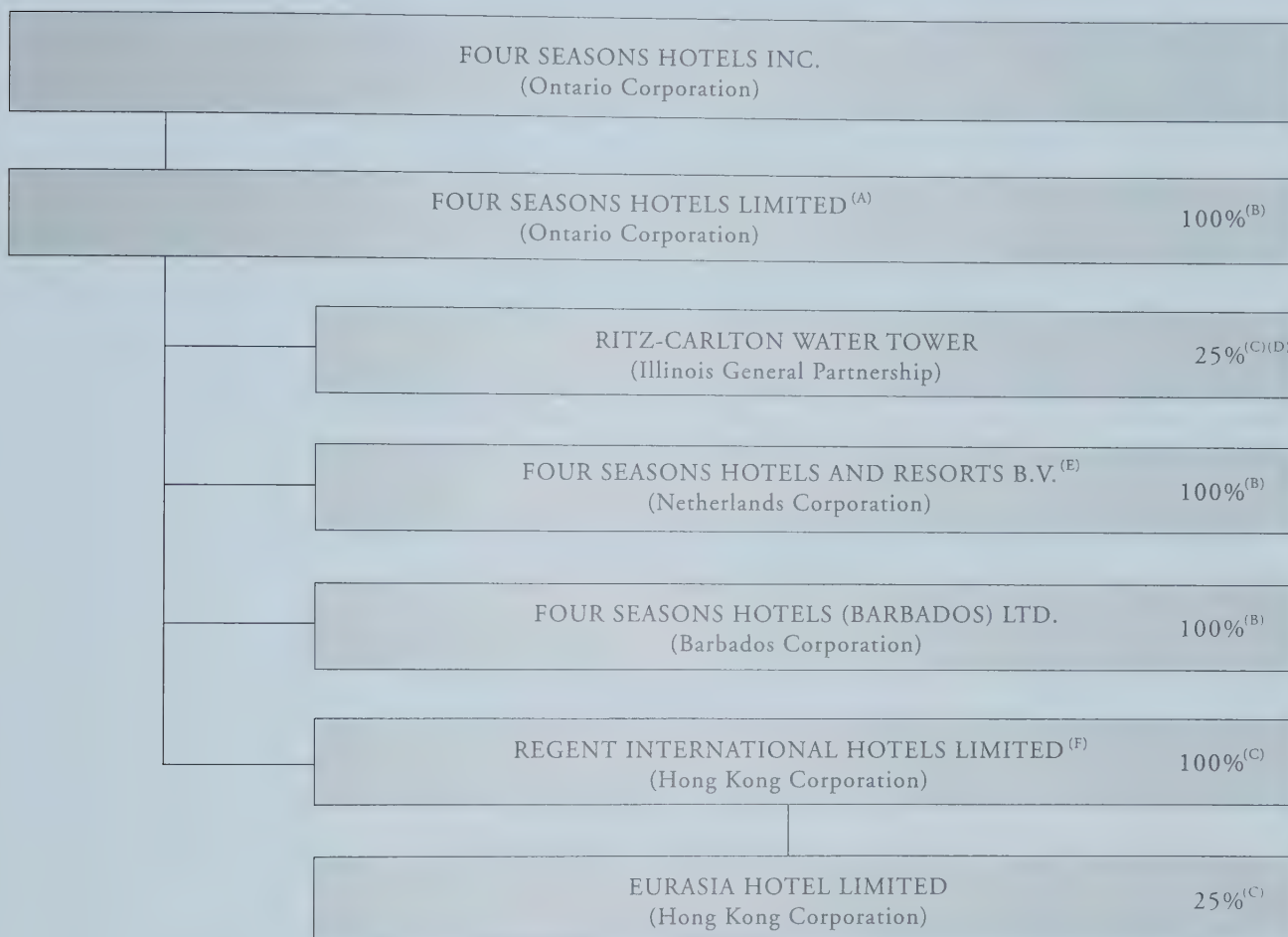
Four Seasons shall provide to any person, upon request to the office of the Secretary of Four Seasons Hotels Inc. at 1165 Leslie Street, Toronto, Ontario, Canada M3C 2K8 (telephone (416) 449-1750):

- (a) when the securities of Four Seasons Hotels Inc. are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
  - (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form,
  - (ii) one copy of the comparative financial statements of Four Seasons for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statements of Four Seasons subsequent to the financial statements for its most recently completed financial year,
  - (iii) one copy of the Management Information Circular of Four Seasons Hotels Inc. prepared for the most recent Annual Meeting of Shareholders, and
  - (iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that in either case Four Seasons may require the payment of a reasonable charge if the request is made by a person who is not a security holder of Four Seasons Hotels Inc.

Additional information relating to Four Seasons, including directors' and officers' remuneration and indebtedness, interests of insiders in material transactions, principal holders of securities of Four Seasons Hotels Inc. and options to purchase securities is contained in Four Seasons Hotels Inc.'s Management Information Circular prepared for the most recent Annual Meeting of Shareholders. Additional financial information, including consolidated comparative audited financial statements for the years ended December 31, 1997 and 1996, is provided in Four Seasons' 1997 Annual Report. A copy of such documents may be obtained upon request from the Secretary of Four Seasons Hotels Inc. at the address and telephone number noted above.

## C O R P O R A T E   C H A R T

The following chart illustrates Four Seasons' corporate structure, including certain partnerships in which Four Seasons has a significant interest, either directly or indirectly, and their jurisdictions of incorporation or organization.



### Notes:

(A) The management of Four Seasons hotels in North America is generally carried out by Four Seasons Hotels Limited.

(B) Direct.

(C) Indirect.

(D) The Corporation expects to reach an agreement to exchange its 25% ownership interest in exchange for the elimination of certain termination provisions in the applicable management contract.

(E) The management of Four Seasons hotels outside North America is generally carried out by Four Seasons Hotels and Resorts B.V.

(F) The management of Regent hotels is generally carried out by Regent International Hotels Limited.

The management of Four Seasons Hotels Inc. is responsible for the preparation and integrity of the financial statements and related financial information of the Corporation and the selection of accounting principles appropriate to the Corporation's circumstances. The consolidated financial statements, notes and other financial information included in the Annual Report were prepared in accordance with accounting principles generally accepted in Canada. The statements also include estimated amounts based on informed judgments of current and future events, for items such as the useful lives of capital assets and provisions for impairment in the value of assets. These estimates are made with appropriate consideration of the materiality of the amounts involved. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management is also responsible for maintaining a system of internal controls and budgeting procedures which are designed to provide reasonable assurance that assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, and relevant and reliable financial information is produced. To augment the internal control system, the Corporation maintains a program of internal audits covering significant aspects of the operations.

The Corporation's Audit Committee is appointed by the Board of Directors annually. The Committee meets with the internal and independent auditors (who have free access to the Audit Committee) and with management, to satisfy itself that each group is properly discharging its responsibilities, and to review the financial statements, the independent auditors' report and other financial information appearing in the Corporation's Annual Report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.

KPMG, the independent auditors appointed by the shareholders of the Corporation, have examined the financial statements in accordance with generally accepted auditing standards.



Isadore Sharp  
*Chairman and Chief Executive Officer*  
February 18, 1998



Douglas L. Ludwig  
*Chief Financial Officer,*  
*Executive Vice President and Treasurer*

#### AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1997 and 1996 and the consolidated statements of operations, deficit, cash provided by operations and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Canada  
February 18, 1998

KPMG  
Chartered Accountants

# CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 1997 and 1996

(In thousands of dollars except per share amounts)

	1997	1996
<b>Consolidated revenues</b>	<b>\$ 240,030</b>	<b>\$ 120,711</b>
<b>HOTEL MANAGEMENT OPERATIONS:</b>		
Fee revenues	\$ 105,996	\$ 94,729
General and administrative expenses	(42,336)	(39,057)
	63,660	55,672
<b>HOTEL OWNERSHIP OPERATIONS:</b>		
Revenues	135,308	17,639
Distributions from hotel investments	5,991	9,174
Expenses:		
Cost of sales and expenses	(118,978)	(17,310)
Fees to Hotel Management Operations	(7,265)	(831)
	15,056	8,672
Earnings before other operating items	78,716	64,344
Other operating items:		
Investment income	363	240
Depreciation and amortization	(15,752)	(13,991)
Loss on repurchase of debt (note 10(b))	(12,021)	—
Earnings from operations	51,306	50,593
Interest expense, net (note 10(f))	(8,932)	(18,767)
Earnings before income taxes	42,374	31,826
Income tax expense (note 12):		
Current	(1,421)	(1,730)
Deferred	(183)	(230)
	(1,604)	(1,960)
Net earnings	\$ 40,770	\$ 29,866
Earnings per share	\$ 1.24	\$ 1.04

See accompanying notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

December 31, 1997 and 1996

(In thousands of dollars)

1997

1996

## ASSETS

### Current assets:

Cash and cash equivalents	\$ 25,335	\$ 15,394
Receivables (note 3)	44,747	51,212
Inventory	1,588	1,629
Prepaid expenses	1,785	1,625

### Long-term receivables (note 4)

73,455 69,860

### Investments in hotel partnerships and corporations (notes 2 and 5)

79,672 41,429

### Fixed assets (note 6)

66,688 62,724

### Investment in management contracts (note 7)

43,416 33,150

### Investment in trademarks and trade names (note 8)

105,960 98,437

### Other assets (note 9)

61,021 59,999

23,000 19,688

**\$ 453,212 \$ 385,287**

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Current liabilities:

Accounts payable and accrued liabilities	\$ 57,249	\$ 54,670
Long-term debt due within one year (note 10)	1,290	13,403

58,539 68,073

### Long-term debt (note 10)

138,951 226,586

### Deferred income taxes

1,209 2,568

### Shareholders' equity (note 11):

Capital stock	298,382	177,757
Contributed surplus	4,784	4,784
Deficit	(54,961)	(92,278)
Equity adjustment from foreign currency translation	6,308	(2,203)

254,513 88,060

### Commitments and contingencies (note 13)

**\$ 453,212 \$ 385,287**

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Isadore Sharp  
Director



Benjamin Swirsky  
Director

# CONSOLIDATED STATEMENTS OF CASH PROVIDED BY OPERATIONS

Years ended December 31, 1997 and 1996

(In thousands of dollars)

	1997	1996
CASH PROVIDED BY (USED IN) OPERATIONS:		
HOTEL MANAGEMENT OPERATIONS:		
Earnings before other operating items	\$ 63,660	\$ 55,672
Items not requiring an outlay of funds	704	1,260
Working capital provided by Hotel Management Operations	64,364	56,932
HOTEL OWNERSHIP OPERATIONS:		
Earnings before other operating items	15,056	8,672
Items not requiring (providing) an outlay (inflow) of funds	2,926	(1,358)
Working capital provided by Hotel Ownership Operations	17,982	7,314
	82,346	64,246
Investment income	363	240
Interest paid, net	(10,814)	(20,768)
Current income tax expense	(1,421)	(1,730)
Change in non-cash working capital	(5,680)	1,673
Cash provided by operations	\$ 64,794	\$ 43,661

See accompanying notes to consolidated financial statements.

# **CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

Years ended December 31, 1997 and 1996  
(In thousands of dollars)

	1997	1996
<b>CASH PROVIDED BY (USED IN):</b>		
<b>Operations</b>	<b>\$ 64,794</b>	<b>\$ 43,661</b>
<b>Financing:</b>		
Long-term debt, including current portion:		
Issued	106,823	54,455
Repaid	(219,747)	(98,463)
Issuance of shares (note 11)	120,625	1,339
Other	(948)	(46)
<b>Cash provided by (used in) financing</b>	<b>6,753</b>	<b>(42,715)</b>
<b>Capital investments:</b>		
Increase in long-term receivables	(38,535)	(9,729)
Decrease in long-term receivables	2,648	10,171
Hotel investments	(8,369)	(16,033)
Disposal of hotel investments (note 5)	13,000	5,601
Acquisition of hotel investments (note 5)	—	(1,302)
Purchase of fixed assets	(10,508)	(1,342)
Investment in trademarks, trade names and management contracts	(9,343)	(5,083)
Other assets	(7,170)	(1,841)
<b>Cash used in capital investments</b>	<b>(58,277)</b>	<b>(19,558)</b>
<b>Dividends paid</b>	<b>(3,180)</b>	<b>(3,042)</b>
<b>Increase (decrease) in cash</b>	<b>10,090</b>	<b>(21,654)</b>
<b>Increase (decrease) in cash due to unrealized foreign exchange gain (loss)</b>	<b>(149)</b>	<b>281</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>15,394</b>	<b>36,767</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 25,335</b>	<b>\$ 15,394</b>

See accompanying notes to consolidated financial statements.

## **CONSOLIDATED STATEMENTS OF DEFICIT**

Years ended December 31, 1997 and 1996  
(In thousands of dollars)

	1997	1996
<b>Deficit, beginning of year</b>	<b>\$ (92,278)</b>	<b>\$ (119,102)</b>
<b>Net earnings</b>	<b>40,770</b>	<b>29,866</b>
<b>Dividends</b>	<b>(3,453)</b>	<b>(3,042)</b>
<b>Deficit, end of year</b>	<b>\$ (54,961)</b>	<b>\$ (92,278)</b>

See accompanying notes to consolidated financial statements.

Years ended December 31, 1997 and 1996

(In thousands of dollars except per share amounts)

Four Seasons Hotels Inc. ("FSHI") is incorporated under the *Business Corporations Act* of the Province of Ontario and, through its subsidiaries, is engaged in the management of, and the investment in, hotel, resort and vacation ownership properties throughout the world (note 15). (FSHI and its subsidiaries are collectively referred to as the "Corporation.")

At December 31, 1997, the Corporation managed 39 hotels and resorts, one vacation ownership property and had various projects under construction or development, of which the Corporation had an equity interest in eight hotels and resorts under management, one vacation ownership property and two projects under construction. The Corporation earns management and other related fees under long-term management contracts based generally on a percentage of total revenues and operating profits of the managed properties.

# 1. SIGNIFICANT ACCOUNTING POLICIES:

The Corporation's accounting policies and its standards of financial disclosure comply with accounting principles that are generally accepted in Canada. The significant accounting policies are summarized below:

## (a) Principles of consolidation:

The Corporation consolidates all of its wholly owned subsidiaries, including its primary operating subsidiaries—Four Seasons Hotels Limited and Regent International Hotels Limited ("Regent").

The Corporation proportionately consolidates its hotel joint venture, The Ritz-Carlton Hotel Chicago (25%). Effective December 30, 1996, the Corporation consolidates its 100% interest in FRC Properties Partnership ("FRC Properties"), which holds the leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York (note 5(c)).

## (b) Accounting for investments in hotel partnerships and corporations:

Investments in hotel partnerships and corporations that own or lease the following hotels are accounted for by the cost method because the percentage ownership and structure does not give the Corporation significant influence over these investments:

### Operating hotels and resorts:

The Regent Hong Kong	25%
Four Seasons Hotel Berlin	*
Four Seasons Hotel Chicago	7.7%
Four Seasons Resort Aviara	7.33%
Four Seasons Olympic Hotel Seattle	3.35%

### Vacation ownership:

Four Seasons Resort Club Aviara	7.33%
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### Under construction:

Four Seasons Resort Punta Mita	30.77%
Four Seasons Hotel Nile Plaza Cairo	9%

\* See note 13(c)(iv).

The Corporation recognizes revenue on its investment in these partnerships and corporations when profit distributions are receivable from the partnerships or corporations.

In the event of a decline in value of an investment in the equity of a hotel partnership or corporation that is other than temporary, the investment is written down to the estimated recoverable amount.

(c) Translation of foreign currencies:

Foreign currency balances of the Corporation and of foreign operations designated as integrated are translated into domestic currencies at the rates of exchange on the balance sheet date for monetary items, and at the rates of exchange on the date of transaction for non-monetary items. The resulting translation gains or losses are included in the determination of net earnings, except for gains or losses related to foreign currency denominated long-term debt designated as hedges of investments in self-sustaining foreign operations, which are deferred and included in a separate component of shareholders' equity.

Revenues and expenses denominated in foreign currencies are translated at the rates of exchange on the dates of the transactions, except for revenues hedged by foreign exchange forward contracts, which are translated at the contract rates.

The financial statements of foreign investments designated as self-sustaining operations are translated into Canadian dollars as follows:

- (i) Assets and liabilities at rates of exchange on the balance sheet date.
- (ii) Revenue and expense items at average rates of exchange in effect during the year.

The resulting exchange gains and losses are deferred and included in a separate component of shareholders' equity.

(d) Capital assets:

Land, buildings, furniture, fixtures, equipment and leasehold interests and improvements are recorded at cost less accumulated depreciation and amortization.

Hotel operating equipment, which includes linen and tableware, is valued at the lower of average cost and replacement cost, and is charged to operations as consumed.

The cost of hotel management contracts acquired as part of the acquisition of Regent in 1992 represents the present value at the time of acquisition of the estimated future net cash flows expected to be received over the estimated lives of the contracts.

The cost of trademarks and trade names represents the estimated fair value of the "Regent" trademark and trade name at the date of the Regent acquisition, and the cost of registering the "Four Seasons" and "Regent" trademarks and trade names throughout the world.

(e) Depreciation and amortization of capital assets:

Depreciation of buildings is recorded on a straight-line basis over 40 years.

Depreciation of furniture, fixtures and equipment is recorded on a straight-line basis at rates which will fully depreciate the assets over their estimated useful lives. The estimated composite useful lives for furniture, fixtures and equipment range from 5 to 10 years.

Amortization of leasehold interests and improvements is recorded on a straight-line basis over the terms of the leases.

The costs allocated to trademarks and trade names are amortized on a straight-line basis over a 40-year period.

The costs allocated to the hotel management contracts acquired as part of the Regent acquisition are amortized on a straight-line basis over the remaining terms of the contracts, which ranged from 8 to 40 years, with an average of 27 years, at the date of acquisition.

The recoverability of the unamortized cost of trademarks, trade names and hotel management contracts is periodically evaluated to determine whether such costs will be recovered from future operations. The Corporation bases these evaluations upon the projected future fee stream on an undiscounted basis. If the undiscounted fee streams are insufficient to recover the remaining net book value, then the undiscounted fee stream is used as the revised carrying value, and a write-down for the difference is recorded as a charge to amortization expense. Events that cause impairment to individual hotel management contracts, such as termination or sale, result in write-offs as the events occur.

(f) *Deferred charges:*

The Corporation defers development costs directly relating to the negotiation, structuring and execution of new contracts relating to projects which, in management's judgment, have a high probability of opening. When the property is opened, these deferred charges are reclassified to "Investment in management contracts." If the project is abandoned, any deferred charges are written off. The deferred charges associated with new management contracts developed by the Corporation are amortized on a straight-line basis over a 10-year period commencing when the hotel is opened.

(g) *Cash and cash equivalents:*

The Corporation's investments in cash and cash equivalents are highly liquid, with maturities of less than 30 days. These investments are bank deposits and guaranteed investment certificates with the Corporation's primary banker.

(h) *Use of estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The most significant estimates that the Corporation is required to make relate to the recoverability of its investments in (i) long-term receivables, (ii) hotel partnerships and corporations, (iii) management contracts, and (iv) trademarks and trade names.

The estimated recoverable amounts of these investments usually depend upon estimates of the profitability of the related managed hotels, which, in turn, depend upon assumptions regarding future conditions in the general or local hospitality industry, competition from other hotels, changes in travel patterns, and other factors that affect the hotels' gross operating revenue (which is the factor on which the Corporation's base management fee revenues are normally based) and net operating profit (which is the factor on which the Corporation's incentive management fee revenues are normally based).

The estimates of recoverable amounts of these investments may also depend upon assumptions regarding local real estate market conditions, property and income taxes, interest rates and the availability, cost and terms of financing, the impact of present or future legislation or regulation, and other factors affecting the profitability and saleability of the hotels.

These assumptions are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of recoverable amounts are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated recoverable amounts could change by a material amount.

(continued)

## (i) Earnings per share:

Earnings per share is based on the weighted average number of Variable Multiple Voting Shares and Limited Voting Shares outstanding during the years (note 11(a)). Conversion of outstanding options to purchase Limited Voting Shares is not dilutive.

## 2. HOTEL DISPOSITIONS AND ACQUISITIONS:

- (a) In 1992, in connection with the acquisition of Regent, the Corporation and Hotel Investment Corporation ("HIC") contributed their ownership and leasehold interests in 10 hotels to a group of related partnerships (referred to collectively as "FRA Properties"). Since that time, FRA Properties has sold its ownership interests in all the properties that were contributed (other than the 100% leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York), including the hotels contributed to FRA Properties by the Corporation.

Effective December 30, 1996, the Corporation transferred its 19.9% limited partnership interest in FRA Properties to HIC, and acquired 100% of FRC Properties, which holds the leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York. In addition, as at December 31, 1996, FRC Properties held a long-term receivable relating to the sale of the Inn on the Park Toronto, a residual interest in certain property adjacent to the Inn on the Park Toronto, and owed \$12,600 to a Canadian chartered bank (previously secured by the Inn on the Park Toronto and which was guaranteed by the Corporation). This bank loan was fully repaid by FRC Properties in January 1997.

- (b) In November 1996, the Corporation completed the sale of its minority ownership interest in the Four Seasons Resort Nevis for proceeds of \$2,101.

In connection with this sale, the Corporation executed an amended hotel management contract with the new owner of the hotel that provided for enhanced management fees (both basic and incentive fees) and a longer term compared to the predecessor contract. In addition, the Corporation's loan to the former owner of the hotel of US\$3,000 plus accrued interest was settled, and the Corporation contributed US\$4,732 to the former owner as the Corporation's share of the funds necessary to discharge the mortgage on the property.

## 3. RECEIVABLES:

	1997	1996
Trade accounts of consolidated hotels	\$ 11,369	\$ 9,803
Receivable from hotel partnerships, affiliates and managed hotels	22,511	17,994
Receivable from sale of hotel investment (note 5)	—	13,000
Other	10,867	10,415
	<u>\$ 44,747</u>	<u>\$ 51,212</u>

Receivables at December 31, 1997 are recorded net of an allowance for doubtful accounts of \$3,811 (1996 – \$2,815). The bad debt expense for the year ended December 31, 1997 was \$2,051 (1996 – \$225).

#### 4. LONG-TERM RECEIVABLES:

	1997	1996
Secured cash flow bond, due 2005, interest at 10%, £11.6 million (1996 – £12.6 million) (a)	\$ 27,454	\$ 29,377
Secured loans:		
Secured, interest at 6%, French francs 161.6 million (b)	39,219	—
Secured by a hotel property sold (c)	6,940	7,000
Due from directors, officers and employees, non-interest bearing notes and mortgages	5,643	5,024
Unsecured loans:		
To managed hotels, non-interest bearing loans, US\$5,291 (1996 – US\$5,020) (d)	7,581	6,883
	86,837	48,284
Less allowance for doubtful long-term receivables (d)	(7,165)	(6,855)
	\$ 79,672	\$ 41,429

(a) The cash flow bond was received by the Corporation in 1995 as consideration for the sale of its 50% interest in the Four Seasons Hotel London to an affiliate of Kingdom Investments Inc. ("Kingdom"), which is a significant shareholder of FSHI. Principal and interest on the bond is payable annually out of the purchaser's 50% portion of the available cash flow (as defined in the bond indenture) from the hotel. The bond is secured by the purchaser's investment in the hotel. During 1997, principal repayment of £1.0 million was received by the Corporation as well as all interest accrued on the bond to March 1997. Interest income from the bonds has been fully accrued in 1997, as the Corporation believes there is reasonable assurance the interest will be received in March 1998.

(b) In connection with the acquisition of the Hôtel George V in Paris by an affiliate of Kingdom, the Corporation advanced, in 1997, a loan to an affiliate of Kingdom in the amount of approximately French francs 161.6 million. The loan is secured by Kingdom's indirect interest in the hotel.

Following an extensive renovation program, the Corporation expects that it will manage the hotel pursuant to a long-term management agreement. When and if this occurs, the Corporation will reclassify the loan to "Investment in management contracts" and amortize it over 40 years. The loan will be repaid in accordance with an agreed upon formula if the management agreement is terminated for any reason, or if the renovation program is not completed.

(c) FRC Properties received a promissory note relating to the sale of the Inn on the Park Toronto (note 2 (a)). The note has a face value of \$10,000, bears interest at 9% per annum and is repayable over the period to January 17, 2001. At maturity, the debtor has the option to extend the note for a further five years, and the debtor has the option to prepay any or all of the principal and interest outstanding, without penalty, at any time. If the debtor achieves specified capital spending targets at the hotel, the interest rate is reduced. The Corporation believes that the debtor will likely achieve these capital spending targets; therefore, the note has been recorded at a discounted amount, using a rate of interest that takes into account the risks associated with the note. During 1997, principal of \$60 was received by the Corporation.

(d) As at December 31, 1997 and 1996, the Corporation had advanced a total of US\$5,000 to the owner of The Regent Hotel Jakarta which opened in late 1995. This loan is unsecured, non-interest bearing, and convertible into a 5% equity interest in the hotel, subject to regulatory approval. If the loan is not converted into equity of the hotel, the loan is repayable in full on December 14, 2003. The Corporation has fully reserved for the loan as at December 31, 1997 and 1996.

(continued)

Changes in the allowance for doubtful long-term receivables consist of:

	1997	1996
Balance, beginning of year	\$ 6,855	\$ 6,813
Foreign exchange	310	42
	<b>\$ 7,165</b>	<b>\$ 6,855</b>

The only impaired long-term receivable identified by the Corporation at December 31, 1997 and 1996 is discussed in item (d) above. No interest income was recognized on impaired long-term receivables in 1997 or 1996.

#### 5. INVESTMENTS IN HOTEL PARTNERSHIPS AND CORPORATIONS:

	1997	1996
The Regent Hong Kong (a)	\$ 15,270	\$ 17,170
Other hotel partnerships and corporations (b)	51,418	45,554
	<b>\$ 66,688</b>	<b>\$ 62,724</b>

##### (a) Investment in The Regent Hong Kong:

The Corporation has a 25% leasehold interest in The Regent Hong Kong. The initial term of the leasehold terminates in December 2000 with an option to renew for a further 10 years exercisable by the lessee. The Corporation amortizes the cost of its investment in The Regent Hong Kong on a straight-line basis over the remaining term of the initial leasehold. Amortization expense during the year was \$2,586 (1996 – \$2,585).

##### (b) Other hotel partnerships and corporations:

The Corporation has accounted for the disposition of its ownership interest in the Four Seasons Resort Nevis (note 2(b)) as a non-monetary exchange of assets that does not represent the culmination of the earnings process. Accordingly, no gain was recognized on this transaction, and the excess of \$7,601 of the net book value of the Corporation's investment in the hotel over the cash proceeds received has been reclassified to "Investment in management contracts" (note 7). Management believes that the incremental fair value of the amended management contract exceeds the amount reclassified.

##### (c) Unwind of FRA Properties:

In November 1996, FRA Properties entered into an agreement to sell its leasehold interest in the Four Seasons Hotel Toronto. The transaction closed in January 1997, at which time the Corporation received cash proceeds, net of costs of disposition, of \$13,000.

The Corporation has accounted for the exchange of its partnership interest in FRA Properties for a 100% partnership interest in FRC Properties (note 2(a)) as a non-monetary exchange of assets that does not represent the culmination of the earnings process. Accordingly, no gain or loss was recognized on this transaction, and the net book value of the Corporation's investment in FRA Properties as at December 30, 1996 of \$3,500 has been allocated to the assets and liabilities of FRC Properties, which includes leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York, as follows:

Current assets (including cash of \$2,198)	\$ 14,265
Long-term receivables	7,000
Investment in residual interest in land	2,500
Operating equipment	1,810
Other assets	800
Accounts payable and accrued liabilities	(10,275)
Long-term debt due within one year	(12,600)
Net assets assumed	\$ 3,500

(d) Investment in hotel joint venture:

The Corporation's proportionate interest in the assets and liabilities of The Ritz-Carlton Hotel Chicago, which is proportionately consolidated in these financial statements as at December 31, 1997 and 1996, is summarized as follows:

	1997	1996
Current assets	\$ 4,263	\$ 4,205
Long-term assets	23,154	21,956
	27,417	26,161
Current liabilities	(4,309)	(3,532)
Long-term debt	(15,557)	(10,283)
	(19,866)	(13,815)
	\$ 7,551	\$ 12,346

The Corporation's proportionate interest in the revenues and expenses of The Ritz-Carlton Hotel Chicago, which is proportionately consolidated in these financial statements for the years ended December 31, 1997 and 1996, is summarized as follows:

	1997	1996
Revenues	\$ 19,590	\$ 17,606
Expenses	(17,400)	(15,892)
	\$ 2,190	\$ 1,714

6. FIXED ASSETS:

			1997	1996
	Cost	Accumulated depreciation/ amortization	Net book value	Net book value
Land	\$ 4,402	\$ —	\$ 4,402	\$ 4,263
Buildings	22,577	(3,316)	19,261	19,129
Furniture, fixtures and equipment	26,921	(15,272)	11,649	5,688
Leasehold interests and improvements	6,424	(3,193)	3,231	1,473
	60,324	(21,781)	38,543	30,553
Operating equipment	4,873	—	4,873	2,597
	\$ 65,197	\$ (21,781)	\$ 43,416	\$ 33,150

Depreciation and amortization expense for fixed assets was \$3,464 (1996 – \$2,265).

(continued)

## 7. INVESTMENT IN MANAGEMENT CONTRACTS:

	1997	1996
Management contracts, at cost	\$ 142,421	\$ 127,527
Less accumulated amortization	(36,461)	(29,090)
	<b>\$ 105,960</b>	<b>\$ 98,437</b>

Amortization expense for management contracts was \$7,198 (1996 – \$6,769).

## 8. INVESTMENT IN TRADEMARKS AND TRADE NAMES:

	1997	1996
Trademarks and trade names, at cost	\$ 72,543	\$ 68,742
Less accumulated amortization	(11,522)	(8,743)
	<b>\$ 61,021</b>	<b>\$ 59,999</b>

## (a) Disposition of “Regent” trade name:

In November 1997, the Corporation entered into an agreement with Carlson Hospitality Worldwide (“Carlson”) pursuant to which Carlson acquired the rights to the “Regent” name for new development. The Corporation will continue to operate and manage the existing Regent hotels. The Corporation will be entitled to receive payments from Carlson calculated as a percentage of the gross royalty revenue of the new development effort.

The portion of the net book value of the Corporation’s investment in the “Regent” trade name that relates to royalty payments that the Corporation will continue to receive from the existing “Regent” hotels will be reclassified as “Investment in management contracts” and amortized over the terms of the related management contracts; and the portion of the net book value that relates to the rights transferred to Carlson will be deferred and amortized over the shorter of the term of the Carlson agreement and 40 years.

## (b) Amortization expense:

Amortization expense for trademarks and trade names was \$2,346 (1996 – \$2,094).

## 9. OTHER ASSETS:

	1997	1996
Bonds and debentures	\$ 2,868	\$ 2,744
Cash surrender value of life insurance policies (a)	13,312	10,152
Deferred development costs	3,943	1,969
Deferred financing costs	1,220	2,708
Other deferred costs	1,657	2,115
	<b>\$ 23,000</b>	<b>\$ 19,688</b>

(a) These policies insure the lives of senior executives and are designated to finance pension benefit obligations for these individuals (note 13(b)). These policies are held directly and indirectly by the Corporation.

## 10. LONG-TERM DEBT:

	1997	1996
Unsecured debentures (a)	\$ 100,000	\$ —
Unsecured notes (b)	8,598	147,383
Bank credit facility (c)	—	54,155
Mortgage (d)	15,879	10,283
Bank loan (note 2(a))	—	12,600
Other long-term liabilities	15,764	15,568
	140,241	239,989
Less amounts due within one year	(1,290)	(13,403)
	\$ 138,951	\$ 226,586

### (a) Unsecured debentures:

The unsecured debentures, with a face value of \$100,000, were issued on July 2, 1997 at a discount for \$99,723, and are due on July 2, 2002. The debentures bear interest at 6%, payable semi-annually, and are redeemable at the option of the Corporation, in whole or in part, at any time, at redemption prices provided for in the indenture.

### (b) Unsecured notes:

The unsecured notes, with a face value at December 31, 1997 of US\$6,000 (1996 – US\$107,500), were issued on June 30, 1993 at a discount, and are due on July 1, 2000. The notes bear interest at 9-1/8%, payable semi-annually, and are redeemable at the option of the Corporation, in whole or in part, at any time on or after July 1, 1998, at redemption prices provided for in the indenture. The Corporation repurchased notes with a face value of US\$101,500 during 1997 (1996 – US\$7,500) for US\$108,178, which resulted in an accounting loss of \$12,021. The notes repurchased have been cancelled by the Corporation. The repurchase was partly funded from the proceeds of the unsecured debentures issued in July 1997 (note (a) above).

### (c) Bank credit facility:

The Corporation has a US\$100,000 committed bank credit facility which matures in July 2002. As at December 31, 1997, no amounts (1996 – US\$39,500) had been borrowed by the Corporation under this credit facility. Borrowings under this credit facility bear interest at LIBOR plus a spread ranging between 0.3% and 1% (LIBOR plus 1/2% during 1997 and 1996) depending upon certain criteria specified in the loan agreement, and are secured by a charge over virtually all of the Corporation's Canadian assets.

The balance outstanding under the bank credit facility as at December 31, 1996 was repaid from the proceeds of the equity issuance that the Corporation completed on February 12, 1997 (note 11(b)).

### (d) Mortgage:

This amount in 1996 represents the Corporation's proportionate share of a mortgage on The Ritz-Carlton Hotel Chicago. US\$7,500 was due in 1997, and bore interest at the lower of LIBOR plus 2% and US prime plus 1%. The Corporation had jointly and severally guaranteed US\$3,000 of this proportionately consolidated debt.

In January 1997, the mortgage was refinanced and the Corporation's proportionately consolidated amount of the refinanced non-recourse mortgage was US\$11,250. The refinanced mortgage bears interest at rates ranging from the lower of LIBOR plus 1.50% and US prime plus 0.50%, up to the lower of LIBOR plus 2.25% and US prime plus 1.25%, depending on certain financial tests. The mortgage is due in 2002, with annual repayments of US\$225, payable in equal quarterly instalments. As at December 31, 1997, the outstanding mortgage was US\$11,081. As a result of the refinancing, the Corporation was released from its guarantee of US\$3,000, and US\$3,461 was distributed to the Corporation.

(continued)

## (e) Scheduled long-term debt repayments:

1998	\$ 1,290
1999	1,331
2000	9,913
2001	1,329
2002	114,667
Subsequent to 2002	11,711
	<hr/> \$ 140,241 <hr/>

## (f) Interest expense, net:

	1997	1996
Interest on long-term debt	\$ (13,457)	\$ (20,939)
Other interest expense	(1,892)	(1,493)
Interest income	6,417	3,665
Interest expense, net	<hr/> \$ (8,932) <hr/>	<hr/> \$ (18,767) <hr/>

## (g) Restrictive debt covenants:

The bank credit facility contains certain covenants which require the Corporation to maintain certain financial ratios. In addition, the bank credit facility and the trust indentures relating to the unsecured notes and unsecured debentures contain additional covenants which, in certain circumstances, restrict the Corporation's ability to borrow funds ranking superior to these obligations and undertake certain types of major transactions. The Corporation was in compliance with these covenants during 1997 and 1996. In addition, the unsecured notes and bank credit facility are callable in certain circumstances by the creditors on a change of control of FSHI.

## 11. SHAREHOLDERS' EQUITY:

## (a) Capital stock:

**Authorized:**

4,171,924 Variable Multiple Voting Shares ("VMVS"), entitling the holder to that number of votes that results in the aggregate votes attaching to the VMVS representing approximately 67% of the votes attaching to the VMVS and the Limited Voting Shares ("LVS"), in aggregate, which, at December 31, 1997 was 14.44 votes (1996 - 12.01 votes) per VMVS. Changes in the number of votes attaching to the VMVS necessary to maintain this level will occur concurrently with the issue of additional LVS.

The continued adjustment of the voting rights of the VMVS as a result of the issuance of LVS will be subject to ratification by the holders of the LVS every three years, commencing at the time of FSHI's annual meeting in 2000. If the maintenance of the adjustment mechanism is not confirmed by a simple majority of the votes cast by the holders of LVS (other than "prescribed holders" of LVS), any issue of LVS after that time (other than the issue of LVS pursuant to a right, option or similar obligation granted prior to that time) will not result in a further change in the number of votes attaching to the VMVS. Additionally, the continued application of the mechanism will be subject to ratification after any transfer of VMVS that results in a person other than a member of the family of Isadore Sharp holding VMVS or after Isadore Sharp ceases to be the Chief Executive Officer of FSHI.

The VMVS rank equally with the LVS as to distributions on liquidation, dissolution or winding-up of FSHI. Effective from October 3, 1996, dividends declared and paid on the VMVS are in amounts per share equal to 50% of the dividends per share declared and paid on the LVS, regardless of whether the number of votes attaching to the VMVS is further increased.

VMVS are convertible into LVS on a one-for-one basis at the option of the holder. The shares automatically convert into LVS upon any transfer outside of the family of Isadore Sharp, except a transfer of a majority of the shares to a purchaser who makes an equivalent offer to purchase all outstanding VMVS and LVS.

Unlimited	LVS, voting (one vote per share) and ranking equally with the VMVS as to distributions on liquidation, dissolution or winding-up of FSHI.
Unlimited	First Preference Shares, issuable in series, non-voting and ranking prior to all other shares with respect to payment of dividends and distributions on liquidation or winding-up of FSHI. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of FSHI.
Unlimited	Second Preference Shares, issuable in series, non-voting and ranking prior to all other shares except the First Preference Shares with respect to payment of dividends and distributions on liquidation or winding-up of FSHI. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of FSHI.

In 1996, all outstanding Employee Preference Shares ("EPS") were converted to LVS at a rate of 2.14286 LVS per EPS.

**Issued and fully paid:**

	VMVS		LVS		EPS		
	Shares	Stated value	Shares	Stated value	Shares	Stated value	Total
December 31, 1995	4,171,924	\$ 46	24,317,683	\$ 175,460	60,805	\$ 912	\$ 176,418
Converted	—	—	130,290	912	(60,805)	(912)	—
Options exercised for cash	—	—	106,990	1,339	—	—	1,339
December 31, 1996	4,171,924	46	24,554,963	177,711	—	—	177,757
Public issue	—	—	4,370,000	113,699	—	—	113,699
Options exercised for cash	—	—	622,493	6,926	—	—	6,926
<b>December 31, 1997</b>	<b>4,171,924</b>	<b>\$ 46</b>	<b>29,547,456</b>	<b>\$ 298,336</b>	<b>—</b>	<b>\$ —</b>	<b>\$ 298,382</b>

At the Special Meeting of Shareholders on December 19, 1989, the shareholders approved a Long-Term Incentive Plan whereby the chief executive officer of FSHI was granted the right to receive a special payment on an arm's length sale of control of FSHI (the "sale"). The amount of the payment is determined with reference to the sale price and the trading price of LVS on The Toronto Stock Exchange in the period preceding the sale. The right to receive the payment may be transferred among members of the officer's family, their holding companies and trusts.

Under executive share option plans, eligible directors, executives and employees may be granted options to acquire LVS at a price which is not less than the weighted average price of board lots traded on The Toronto Stock Exchange in the five trading days preceding the date of grant. The options are not transferable, have a term of 10 years, and generally become exercisable in varying proportions on the first, second, third, fourth and fifth anniversaries of the date of grant. All such options become exercisable within specified periods in the event of retirement, termination other than for cause (including as a result of a change of control of FSHI), incapacity or death of the director, executive or employee. As at December 31, 1997, there were options outstanding on 3,113,464 LVS (1996 – 2,456,554 LVS) at prices varying

(continued)

between \$8.90 and \$48.34 per share. During 1997, 1,391,572 options (1996 – 85,000 options) were granted to officers and employees at prices ranging from \$24.95 to \$48.34 per share (1996 – ranging from \$18.65 to \$26.68 per share), 622,493 options (1996 – 106,990 options) were exercised for cash proceeds of \$6,926 (1996 – \$1,339), and 112,169 options (1996 – 21,050 options) were cancelled.

(b) *Equity offering:*

On February 12, 1997, FSHI completed the issuance of 4,370,000 LVS for gross proceeds of \$122,360. The net proceeds from the sale of the LVS, after deducting estimated offering expenses and underwriters' commission, were \$113,699.

The Corporation used the net proceeds of the offering to repay all outstanding borrowings under the bank credit facility (note 10(c)), to fund a loan in connection with acquiring the long-term management agreement for the Hôtel George V in Paris (note 4(b)), to invest in new hotel projects and for general working capital purposes.

(c) *Equity adjustment from foreign currency translation:*

The change in the equity adjustment from foreign currency translation is primarily caused by changes in the exchange rates used to translate the Corporation's net investment in self-sustaining foreign operations.

## 12. INCOME TAXES:

Income tax expense shown in the consolidated statements of operations varies from the amount computed by applying the combined Canadian federal and provincial tax rates as follows:

	1997	1996
Earnings before income taxes	\$ 42,374	\$ 31,826
Items not deductible (not subject to tax)	7,940	(3,700)
Earnings subject to tax	\$ 50,314	\$ 28,126
Expected Canadian federal and provincial statutory tax rate	41.5%	41.5%
Expected income tax expense	\$ (20,880)	\$ (11,672)
Reduction in income tax due to lower foreign tax rates	3,143	4,089
Tax benefits of prior years' losses	16,302	5,685
Other	(169)	(62)
Income tax expense	\$ (1,604)	\$ (1,960)

The tax benefits relating to the provision for losses on hotel investments and related assets of \$95,000 recorded in 1995 and \$127,000 recorded in 1993 were not recognized at that time. The tax treatment of these losses will not be determined until the underlying assets are disposed of. The tax benefits of these provisions will be recorded in the year(s) in which the benefits are realized.

### 13. COMMITMENTS AND CONTINGENCIES:

#### (a) Lease commitments:

The Corporation has entered into lease agreements for certain hotel properties for periods up to the year 2021. The lease terms may be extended under renewal options for periods up to the year 2068.

Future minimum lease payments, exclusive of any contingent rentals and occupancy costs, are as follows:

1998	\$ 12,118
1999	14,703
2000	15,150
2001	15,992
2002	10,290
Subsequent to 2002	180,913
	<hr/>
	\$ 249,166

The total lease commitments include the lease commitments relating to the Four Seasons Hotel Berlin, which will commence when the hotel lease is transferred to the Corporation (note (c)(iv) below). The total lease commitments also include the minimum rental payments relating to the remainder of the lease terms for the Four Seasons Hotel Vancouver and The Pierre New York (22 years and 4 years, respectively). The Corporation has recently given notice to the landlord of the Four Seasons Hotel Vancouver that it intends to renew the lease of the hotel for an additional 20-year period. As such, the remaining lease term of 22 years includes this additional 20-year period. The Corporation has been in discussions with the landlord of The Pierre New York to revise the lease to allocate major capital expenditure requirements more equitably between the parties. If these discussions do not result in an arrangement satisfactory to the Corporation, the lease, which expires in January 2002, may not be renewed. As such, the remaining lease term of 4 years excludes any renewal periods.

The Corporation has provided a US\$5,000 letter of credit to support its obligations under the lease at The Pierre New York.

#### (b) Pension commitments:

The Corporation maintains a multi-employer non-contributory defined benefit pension plan (the "Plan") on behalf of the Corporation and the owners of certain managed hotels. The Plan provides pension benefits for certain senior executives of the Corporation and hotel general managers, based on years and level of service and annual salary.

Extrapolation of the actuarial valuation of the Plan dated January 1, 1997, based on projections of employees' compensation levels to the date of retirement, indicate an actuarial value of accumulated Plan benefits as at December 31, 1997 of \$24,670 for 67 participants, of which the Corporation's share was approximately \$14,375 for 34 participants. These benefits are financed by life insurance policies on the lives of each of the participants in the Plan. The Corporation's share of the cash surrender value of the policies as at December 31, 1997 was \$13,312 (note 9).

In addition, the Corporation maintains an unfunded, non-contributory deferred compensation plan for the purpose of providing retirement benefits for certain other hotel general managers.

#### (c) Contingencies:

- (i) The Corporation estimates and accrues for the losses, if any, it is likely to incur relating to uninsured contingent liabilities such as guarantees of third party debt, environmental matters, personal injury and property damage at owned or managed hotels, workers compensation claims, etc. The Corporation's assessment of its potential liability for such matters could change, with the result that the accruals for contingent liabilities recorded in the Corporation's financial statements could increase by a material amount.

- (ii) The Corporation is contingently liable for some or all of the obligations of certain of the managed hotels and/or partnerships and joint ventures in which it has a direct interest (note 5). However, against this contingent liability, the Corporation would have a claim upon the assets of the partnerships and joint ventures and, in certain limited cases, their partners.
- (iii) The Corporation has guaranteed up to US\$5,000, plus accrued interest, of the construction loan relating to the Four Seasons Resort Aviara. The Corporation has provided additional guarantees in connection with the vacation ownership development at the Four Seasons Resort Aviara. One such guarantee was entered into to afford lenders to the development access to distributions that would be received by the Corporation in respect of its ownership interest in the development after default in respect of debt related to the development.
- (iv) The Corporation has a 23% investment in the company that owns a multi-use project in Berlin that includes the Four Seasons Hotel Berlin, as well as commercial, residential and retail space. The Corporation has guaranteed up to DM7 million, plus accrued interest, of the construction loan relating to the multi-use project. The Corporation has entered into an operating lease with this company, pursuant to which, once the hotel is operating in accordance with the Corporation's detailed technical specifications, the hotel lease will be transferred to the Corporation, at which time the Corporation will begin accounting for the hotel's operations on a consolidated basis. The effective date of the transfer of the hotel lease is subject to resolving a dispute arising from certain construction deficiencies alleged by the Corporation.
- (v) Until 1982, the Corporation held a co-ownership interest in an office building in Toronto. In 1981, the co-owners obtained financing of approximately \$22,000 (of which approximately \$20,600 plus accrued interest was outstanding as at December 31, 1997) in connection with the property and the Corporation provided a several guarantee with respect to the financing. The Corporation sold its interest in the property to a Canadian insurance company in 1982 for consideration consisting of a cash payment and an assumption by the purchaser of the Corporation's obligations under the mortgage. The Corporation has been advised by the mortgagee that a default has occurred under the mortgage and the mortgagee has commenced a proceeding against the Corporation and another guarantor. The Corporation is vigorously defending the suit and believes that, as a result of, among other things, the sale by the Corporation of its interest in the property and the resulting obligations of the purchaser, any obligations of the Corporation to the mortgagee should be offset by corresponding claims against the purchaser.
- (vi) In 1992, the Corporation received two notices that the owners of two managed hotels consider that the Corporation's acquisition of Regent, which manages a hotel in the same city, has breached the radius restriction in their respective management contract. Discussions with the owners with a view to resolving the issue are still continuing. No further action has been taken by either owner to date.
- (vii) In the ordinary course of its business, the Corporation is named as defendant in legal proceedings resulting from incidents taking place at hotels owned or managed by it. The Corporation maintains comprehensive liability insurance and also requires hotel owners to maintain adequate insurance coverage. The Corporation believes such coverage to be of a nature and amount sufficient to ensure that it is adequately protected from suffering any material financial loss as a result of such claims.
- (viii) A number of the Corporation's management contracts are subject to certain performance tests which, if not met, could allow a contract to be terminated prior to its maturity. The Corporation generally has various rights to cure any such defaults to avoid termination. In addition, certain management contracts are terminable by the hotel owner on a defined change of control of FSHI.
- (ix) The Corporation has guaranteed certain obligations of various directors, officers, and employees in the amount of \$1,316.

#### 14. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. These estimates, although based on the relevant market information about the financial instrument, are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

As cash equivalents, current accounts receivable, current accounts payable and certain other short-term financial instruments are all short-term in nature, their carrying amounts approximate fair value.

The fair values of the Corporation's long-term debt are estimated using discounted cash flow analysis which are based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Other financial instruments held by the Corporation include interest bearing loans receivable due from owners of managed hotels (note 4). The Corporation does not have plans to sell these loans to third parties and will realize or settle them in the ordinary course of business. The fair value of these instruments cannot be reasonably estimated because no active and liquid market exists for these instruments, and a market rate of interest (for instruments having similar terms and characteristics) required to use estimation techniques such as discounted cash flow analysis cannot reasonably be determined due to the unusual terms of these instruments.

The Corporation enters into forward foreign exchange contracts that oblige it to sell specific amounts of foreign currencies at set future dates at predetermined exchange rates. Because a significant portion of the Corporation's revenues are derived in foreign currencies (primarily US dollars) and expenditures incurred by the Corporation for its hotel management operations are denominated primarily in Canadian dollars, the Corporation enters into such contracts to protect itself in the event of a strengthening Canadian currency. Management estimates future foreign currency cash flows on an ongoing basis, based on its projections of foreign currency denominated management fees and other transactions. Management negotiates forward foreign exchange contracts in proportion to the magnitude and timing of these cash flows. As at December 31, 1997, the Corporation had sold forward US\$90,700, under 14 forward contracts maturing over a 14-month period. The fair value of forward foreign exchange contracts is estimated from quotes obtained from the Corporation's counterparties for the same or similar financial instruments.

The fair value of financial instruments is as follows:

	Estimated fair value	Carrying amount
<b>1997:</b>		
Long-term debt	\$ 139,000	\$ 140,241
Foreign exchange forward contracts	(4,500)	—
<b>1996:</b>		
Long-term debt	245,000	239,989

(continued)

## 15. SEGMENTED INFORMATION:

## (a) Total consolidated revenues:

	1997			1996		
	Hotel Management revenues	Hotel Ownership revenues	Total consolidated revenues	Hotel Management revenues	Hotel Ownership revenues	Total consolidated revenues
United States	\$ 67,358	\$ 101,516	\$ 168,874	\$ 53,807	\$ 17,606	\$ 71,413
Canada	5,577	33,792	39,369	4,622	—	4,622
United Kingdom and Europe	5,700	—	5,700	4,276	33	4,309
Asia/Pacific	27,361	5,991	33,352	32,024	9,174	41,198
	105,996	141,299	247,295	94,729	26,813	121,542
Less intersegment revenues	(7,265)	—	(7,265)	(831)	—	(831)
	\$ 98,731	\$ 141,299	\$ 240,030	\$ 93,898	\$ 26,813	\$ 120,711

## (b) Earnings from operations:

General and administrative expenses of the Hotel Management Operations have been allocated to specific geographic segments based on the percentage of revenues earned by the Hotel Management Operations in those geographic segments.

	1997			1996		
	Earnings before other operating items	Other operating items	Earnings (loss) from operations	Earnings (loss) before other operating items	Other operating items	Earnings (loss) from operations
United States	\$ 49,820	\$ (6,508)	\$ 43,312	\$ 32,579	\$ (5,169)	\$ 27,410
Canada	3,996	(12,899)	(8,903)	(1,094)	(328)	(1,422)
United Kingdom and Europe	2,583	(528)	2,055	1,675	(891)	784
Asia/Pacific	22,317	(7,475)	14,842	31,184	(7,363)	23,821
	\$ 78,716	\$ (27,410)	\$ 51,306	\$ 64,344	\$ (13,751)	\$ 50,593

## (c) Total assets:

	1997	1996
United States	\$ 195,081	\$ 158,225
Canada	66,546	66,550
United Kingdom and Europe	77,745	39,593
Asia/Pacific	113,840	120,919
	\$ 453,212	\$ 385,287

As a result of the significant currency devaluations and economic downturn in parts of Asia, the Corporation has reassessed the estimated recoverable amounts of its assets located in, or related to, Asia. These assets consist primarily of the Corporation's investment in The Regent Hong Kong and its investments in management contracts and trademarks and trade names related to Asia. Based on these revised estimates, the Corporation believes that these assets are recoverable from future cash flows. However, these estimates are based on projections regarding future revenues of hotels located in Asia,

which, in turn, are based on assumptions regarding future economic conditions in Asia. Should the underlying assumptions change, the estimated recoverable amounts could change by a material amount.

16. SUBSEQUENT EVENT:

Effective January 1, 1998, the Corporation and an affiliate of Kingdom acquired the 50% ownership interest in the Four Seasons Hotel London that the affiliate did not already own. The Corporation acquired a 12.5% ownership interest in the hotel and the affiliate increased its ownership interest in the hotel from 50% (which it acquired from the Corporation in 1995 (note 4(a))) to 87.5%. To facilitate the acquisition, the Corporation invested £16.3 million, which includes an acquisition loan made to the affiliate. The loan bears interest at 10% per annum, payable out of the hotel's cash flow, and is secured by the affiliate's newly acquired interest in the hotel.

## GENERAL

On December 20, 1994, The Toronto Stock Exchange Committee on Corporate Governance in Canada issued a series of guidelines for effective corporate governance (the "Guidelines"). As a result, the by-laws of The Toronto Stock Exchange and of the Montreal Exchange have been amended to require disclosure on an annual basis of the approach to corporate governance by companies listed on such exchanges. The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members.

## THE BOARD OF DIRECTORS

The Board of Directors of FSHI (the "Board") acknowledges its statutory mandate to supervise the management of the business and affairs of FSHI. The Board, in fulfilling this mandate and discharging its duty of stewardship of FSHI, assumes responsibility for the following:

- (a) reviewing and approving the strategic planning and business objectives that are submitted by management and working with management in the implementation of the strategic plan;
- (b) the identification of the principal business risks for the Corporation and the implementation and monitoring of appropriate risk management systems, with the Audit Committee assisting the Board in the monitoring of the risks and reporting on these matters regularly to the Board;
- (c) ensuring internal control and management information systems for the Corporation are in place and are evaluated as part of the internal auditing process and that they are also reviewed periodically by the Audit Committee, with the Audit Committee assessing the effectiveness of the internal control and management information systems through meetings held with the external auditors, as appropriate, and senior management and a review of reports prepared by senior management;
- (d) assessing the performance of the Corporation's executive officers, including monitoring the establishment of appropriate systems for succession planning and for approving the compensation levels of such executive officers based on the recommendations of the Compensation and Organization Committee; and
- (e) ensuring that the Corporation has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

The Board is scheduled to meet five times a year and meets more frequently if required. During the 1997 fiscal year, the Board held eight meetings.

The Guidelines suggest that every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management. The Guidelines suggest that the chairman of the board of directors should not be a member of management or alternatively that the board adopt equivalent procedures such as assigning the responsibility of ensuring that the board discharges its responsibility to a lead director or committee of the board. In this respect, the Corporation has adopted a variety of structures to allow for the independence of the Board from management, including the appointment of a lead director, the practice of having certain non-management members of the Board meeting periodically as a group, the Board initiating discussions with senior management without the Chief Executive Officer present so that they may voice their concerns, and the ongoing monitoring of the relationship between the Board and management by the Corporate Governance Committee.

Another of the Guidelines recommends that the Board of Directors and the Chief Executive Officer should develop position descriptions for the Board and for the Chief Executive Officer that define the limits of management's responsibilities. In this regard, the Corporation has taken a different approach. The Board has adopted a job description and statement of functions for the Chief Executive Officer which delegates to him the day to day responsibility for directing the Corporation and for meeting the corporate objectives approved by the Board. The Chief Executive Officer reports formally to the Board, as well as informally through discussions with one or more members of the Board to advise the Board on courses

of action that have been taken. The Board exercises its responsibility for oversight through the approval of all significant decisions and initiatives. The Board is satisfied that the Chief Executive Officer has reported to and sought the consent of the Board where necessary and appropriate.

## BOARD COMPOSITION

The Guidelines require careful consideration of the size, composition and relative independence of corporate boards. According to the Guidelines, an “unrelated” director is a director who is independent of management and is free from any interest and any business or other relationship that could, or could reasonably be perceived to, interfere materially with the director’s ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. The Guidelines emphasize the ability to exercise objective judgment, independent of management, as a hallmark of an unrelated director.

The Board has 14 members, and believes that its size promotes effectiveness and efficiency and falls within the range suggested by the Guidelines. The Board, in conjunction with the Corporate Governance Committee, has determined, after reviewing the roles and relationships particular to each of the directors, that seven of the 14 directors of FSHI who served in the 1997 financial year were related. The directors who are considered to be unrelated are Nan-b de Gaspé Beaubien, Charles S. Henry, Murray B. Koffler, J. Robert S. Prichard, Benjamin Swirsky, Shuichiro Tamaki and Simon Turner. While the Guidelines recommend that a corporation should be constituted with a majority of individuals who qualify as unrelated directors, the Board believes that it has and continues to function independently of management.

Mr. Isadore Sharp is a “significant shareholder” (as defined in the Guidelines) of FSHI since he controls shares carrying the ability to exercise a majority of the votes for the election of the Board. The Guidelines suggest that where there is a significant shareholder, the Board should include a number of directors who do not have interests in or relationships with either the Corporation or the significant shareholder and who fairly reflect the investment in FSHI by shareholders other than the significant shareholder. Seven of the directors who served in the 1997 financial year are unrelated to the significant shareholder and are unrelated to the Corporation. The Board believes that, at present, this balance serves the Corporation’s needs.

In 1997, the articles of FSHI were amended to permit holders of Limited Voting Shares, as a class, to elect two members of the Board. Accordingly, commencing with the annual meeting of shareholders to be held in 1998, two members of the Board will be elected by holders of Limited Voting Shares.

The Board has three committees. These Committees are generally composed of outside directors, a majority of whom are unrelated directors. In this regard, the Corporation complies with the Guidelines. The only member of management represented on a committee is the Chief Executive Officer, who sits on the Compensation and Organization Committee. The Chief Executive Officer is not present when matters relating to his own compensation are being discussed.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Committees are appointed annually following the election of the Board of Directors at the Annual Meeting of Shareholders. In 1997, the Committees of the Board were as follows:

*Audit Committee* Members: Charles S. Henry, Murray B. Koffler, Lionel H. Schipper, Benjamin Swirsky (Chairman).

The Audit Committee has primary oversight responsibility for the Corporation's financial reporting, risk management and internal controls. The Committee has unrestricted access to the Corporation's personnel and documents and to the Corporation's external auditors. The Audit Committee reviews the annual financial statements and recommends their approval to the Board. The Audit Committee reviews the scope and planning of the external audit, the form of audit report and any correspondence from or comment by the external auditors regarding financial reporting and internal controls. Accordingly, the Corporation complies with the applicable Guidelines.

*Compensation and Organization Committee* Members: Charles S. Henry, Edmond Creed, Nan-b de Gaspé Beaubien, Lionel H. Schipper (Chairman), Benjamin Swirsky, Isadore Sharp.

The Compensation and Organization Committee ensures that a process is in place to maintain the compensation program for the senior executive officers of the Corporation at a fair and competitive level. The Committee ensures that programs related to manpower planning, management development, succession planning, career path planning and performance evaluation are effectively integrated with the Corporation's strategy. The Committee reviews the compensation and remuneration of the Board. Accordingly, the Corporation complies with the applicable Guidelines.

*Corporate Governance Committee* Members: Charles S. Henry, Murray B. Koffler (Chairman), J. Robert S. Prichard, Lionel H. Schipper, Benjamin Swirsky.

The Corporate Governance Committee's mandate is to enhance the Corporation's corporate governance through continuing assessment and policy recommendations on the Corporation's approach to corporate governance. The Committee develops for the approval of the Board the report on the Corporation's corporate governance practices. The Committee determines suitable candidates for nominees as directors, periodically reviews the mandates of committees of the Board and assesses the effectiveness of the directors, oversees an orientation and education program for new recruits to the Board in order to familiarize them with the business of the Corporation, reviews the relationship between management and the Board, and assesses the Board's effectiveness as a whole. The Committee has also been granted the authority and direction to take such other initiatives as are needed to help the Board address corporate governance issues and to approve the engagement of independent advisors for individual directors at the expense of the Corporation, if the need should arise. Accordingly, the Corporation complies with the applicable Guidelines.

## COMMUNICATING TO SHAREHOLDERS

The Board of Directors of FSHI is committed to an effective communications policy for the benefit of all stakeholders including shareholders, debt holders, suppliers, guests, governmental authorities, employees and members of the investment community. In addition to its timely and continuous disclosure obligations under applicable law, the Corporation maintains an Investor Relations Department and ensures that senior management are available to shareholders to respond to questions and concerns. Shareholder concerns are dealt with on an individual basis, usually by providing requested information. Material concerns and questions raised by shareholders to senior management are reported by senior management to the Board.

The Board has also adopted a policy for dealing with analysts and the financial press so as to ensure a dialogue between the investment community and the Corporation to facilitate the dissemination of information. The policy involves quarterly meetings with analysts conducted by senior management, with the Corporation's General Counsel involved, to the extent practicable, to ensure that the Corporation is complying with all applicable disclosure requirements.

# DIRECTORS

Edmond M. Creed\*  
*Retired Executive*

Frederick Eisen  
*President and CEO*  
*The Eisen Corporation*

H. Roger Garland

Charles S. Henry\*+\*\*  
*President*  
*Hotel Capital Advisers, Inc.*

Murray B. Koffler+\*\*  
*Partner*  
*The Koffler Group*

J. Robert S. Prichard\*\*  
*President*  
*University of Toronto*

Lionel H. Schipper\*+\*\*  
*President*  
*Schipper Enterprises Inc.*

Isadore Sharp\*

John L. Sharpe

Benjamin Swirsky\*+\*\*  
*President and*  
*Chief Executive Officer*  
*Beswir Capital Inc.*

Shuichiro Tamaki  
*Advisor*  
*Jowa Corporation*

Simon M. Turner  
*Principal*  
*Hotel Capital Advisers, Inc.*

Nan-b de Gaspé Beaubien\*  
*Vice Chairperson (and Director)*  
*Gasbeau Company*

Christopher Wallis

\* Member of Compensation and Organization Committee

+ Member of Audit Committee

\*\* Member of Corporate Governance Committee

# HONORARY

## PAST DIRECTORS

Mustafa I. Al-Hejailan  
*Managing Director International Kingdom Establishment*

Max Sharp  
*Retired Executive*

# OFFICERS

Isadore Sharp  
*Chairman and*  
*Chief Executive Officer*

John L. Sharpe  
*President and*  
*Chief Operating Officer*

H. Roger Garland  
*Vice Chairman*

Christopher Wallis  
*Executive Vice President*

Wolf H. Hengst  
*Executive Vice President*

Douglas L. Ludwig  
*Executive Vice President,*  
*Chief Financial Officer*  
*and Treasurer*

Craig O. Reith  
*Vice President, Finance*  
*and Assistant Treasurer*

Kathleen Taylor  
*Executive Vice President,*  
*General Counsel and Secretary*

# MANAGEMENT COMMITTEE

Antoine Corinthios  
*President*  
*Europe, Africa and Middle East*

H. Roger Garland  
*Vice Chairman*

Wolf H. Hengst  
*Executive Vice President*  
*Operations*

Douglas L. Ludwig  
*Executive Vice President,*  
*Chief Financial Officer*  
*and Treasurer*

Isadore Sharp  
*Chairman and*  
*Chief Executive Officer*

Anthony Sharp  
*Vice President*  
*Vacation Ownership*

John L. Sharpe  
*President and*  
*Chief Operating Officer*

Barbara Talbott  
*Senior Vice President*  
*Marketing*

Kathleen Taylor  
*Executive Vice President*  
*Corporate Planning*  
*and Development*

Christopher Wallis  
*Executive Vice President*  
*Design and Construction*

John W. Young  
*Senior Vice President*  
*Human Resources*

# AREA VICE PRESIDENTS

Charles J. Ferraro  
*Western North America,*  
*Mexico and the Caribbean*

James G. FitzGibbon  
*President, Four Seasons Asia*

Nicholas Mutton  
*Eastern North America*

# REGIONAL VICE PRESIDENTS

Stan Bromley  
*Washington, D.C.*

Ignacio Gomez  
*Mexico City*

Tom Gurtner  
*Hong Kong*

Neil Jacobs  
*Singapore*

Dieter Janssen  
*Goa*

Peter G. Martin  
*Seattle*

John Stauss  
*London*

# CORPORATE VICE PRESIDENTS

James Cardy  
*Vice President Purchasing*

David B. Crowl  
*Vice President Sales*

Michael Duwaji  
*Senior Vice President*  
*Finance, Operations*

Stuart Fearnley  
*Vice President Design*  
*and Construction*

Meg Fisher  
*Vice President*  
*Human Resources, International*

Ivan Goh  
*Vice President Rooms*

Susan J. Helstab  
*Vice President*  
*Corporate Communications*

Barbara Henderson  
*Vice President*  
*Taxation and Investor Relations*

Michael Hwu  
*Vice President*  
*Management Information Systems*

H. E. (Duffy) Keys  
*Vice President*  
*Business Development*

Alfons E. Konrad  
*Vice President*  
*Food and Beverage*

George S. Lagusis  
*Vice President Design*  
*and Construction*

Roy A. Paul  
*Vice President Development*

Craig O. Reith  
*Vice President Finance*  
*and Assistant Treasurer*

James C. (Jay) Riley  
*Vice President Hotel Marketing*  
*Americas and Europe*

Jonathan Sicroff  
*Vice President*  
*Sales and Marketing, Asia*

Sandra Ward  
*Vice President, Compensation*  
*Benefits and Human Resource Policy*

Randolph Weisz  
*Vice President*  
*Legal Affairs*

# CORPORATE OFFICES

Four Seasons Hotels and Resorts  
1165 Leslie Street  
Toronto, Ontario  
Canada M3C 2K8  
Telephone: (416) 449-1750  
FAX: (416) 441-4374  
[www.fourseasons.com](http://www.fourseasons.com)

# ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Thursday, May 28, 1998 in the Regency Ballroom, Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, Canada

# STOCK LISTINGS

The Toronto Stock Exchange  
The Montreal Exchange  
Stock Ticker Symbol: FSH

The New York Stock Exchange  
Stock Ticker Symbol: FS

# DIVIDEND INFORMATION

11 cents per Limited Voting Share and 5.5 cents per Variable Multiple Voting Share per annum (post-split basis) paid semi-annually in January and July

# TRANSFER AGENT AND REGISTRAR

Montreal Trust Company  
Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

The Bank of Nova Scotia  
Trust Co. of New York  
New York

# AUDITORS

KPMG

# SHAREHOLDER INFORMATION

Please call Barbara Henderson, Vice President, Investor Relations at (416) 441-4329

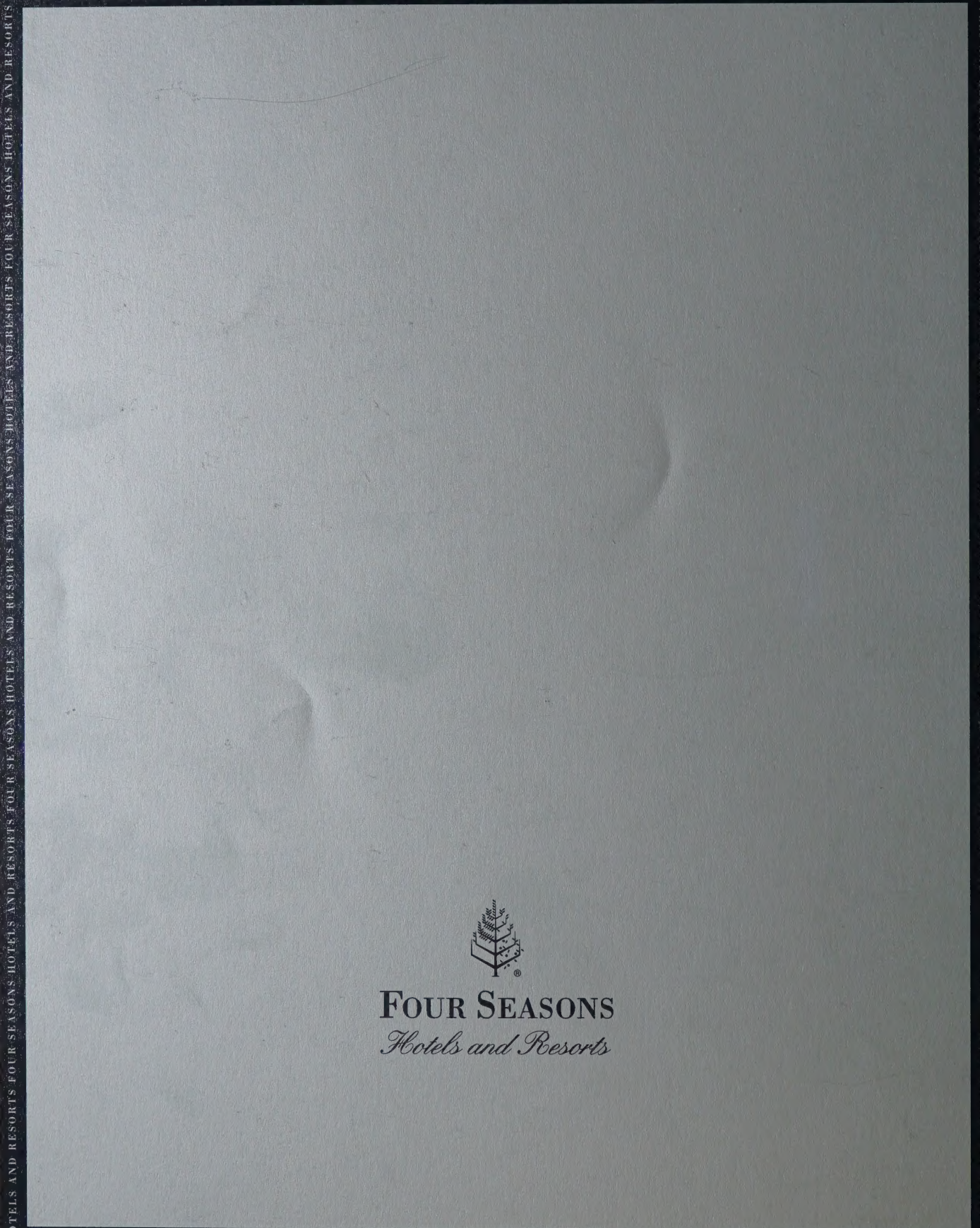
# RESERVATIONS INFORMATION

For reservations at Four Seasons Hotels and Resorts, please call toll-free:

(800) 268-6282 in Canada  
(800) 332-3442 in the United States

For reservations at Regent International Hotels, please call toll-free:  
(800) 545-4000 in Canada and the United States

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**FOUR SEASONS**  
*Hotels and Resorts*

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